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No. 22,482

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IN THE

**United States Court of Appeals**  
**For the Ninth Circuit**

ACCURATE ELECTRIC CO. (GUAM) INC.,  
*Appellant,*

VS.

GOVERNMENT OF GUAM,  
*Appellee.*

On Appeal from the District Court of Guam

**APPELLEE'S BRIEF**

PAUL J. ABBATE,  
Attorney General,

THOMAS M. WILKINS,  
Assistant Attorney General,  
Government of Guam,  
Post Office Box DA,  
Agana, Guam 96910,

*Attorneys for Appellee.*

**FILED**

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WM. B. LUCK, CLERK





## Subject Index

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	Page
Jurisdictional Statement .....	1
Statement of Facts .....	1
Issues Presented .....	5
Summary of Argument .....	6
Argument .....	7
Evidence supporting challenged findings specified by plaintiff as error .....	13
Conclusion .....	16
Certificate .....	16

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## Table of Authorities Cited

---

Cases	Pages
Fritz v. Thompson, 271 P.2d 205 .....	15
Interstate Circuit v. United States, 306 U.S. 208, 59 S.Ct. 467 (1939) .....	10
Niederkrome v. Commissioner, 266 F.2d 238 (C.A. 9, 1959), cert. den., sub nom Royce v. Com., 359 U.S. 945, 79 S.Ct. 725 (1959) .....	11
Noble v. Learned, 153 Cal. 245, 94 P. 1047 .....	15
Pool v. Leone, 374 F.2d 961 (C.A. 10, 1967), cert. den. 389 U.S. 943 .....	12
Smith v. Howard, 322 P.2d 1034 .....	15
Welch v. Helvering, 290 U.S. 111, 54 S.Ct. 8 (1933) .....	11
Weltman v. Kaye, 334 P.2d 917 .....	15

## Statutes

Internal Revenue Code:	
Section 7422(e) .....	12, 13
Organic Act of Guam, Section 31 .....	1
28 U.S.C. Sections 41, 1291, 1294(4) .....	1
48 U.S.C.A. Section 1421i(h),(i) .....	1
72 Stat. 681 (1958) .....	1





No. 22,482

IN THE

**United States Court of Appeals  
For the Ninth Circuit**

---

ACCURATE ELECTRIC CO. (GUAM) INC.,  
*Appellant,*

VS.

GOVERNMENT OF GUAM,  
*Appellee.*

---

**On Appeal from the District Court of Guam**

**APPELLEE'S BRIEF**

---

**JURISDICTIONAL STATEMENT**

Jurisdiction of this action is vested in the District Court of Guam by Section 31 of the Organic Act of Guam, as amended. 72 Stat. 681 (1958), 48 U.S.C.A. Section 1421i(h) (i). This Court has jurisdiction of this appeal. 28 U.S.C. Sections 41, 1291 and 1294(4).

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**STATEMENT OF FACTS**

The appellant herein, Accurate Electric Co. (Guam), Inc., is a corporation existing under the laws of Guam and at all times material to the issues herein it actively operated an electrical contracting

business in Guam. By common stock ownership, appellant was affiliated with Accurate Electric Co., a California corporation and with Land Sales of America, Limited, a Hong Kong corporation, which did business in California of "buying and selling". It was not shown that they were authorized to do business in Guam or that they did business in Guam. (T.R. 11.)

In 1958 Elmer L. Farris owned the entire outstanding shares in these three corporations except for the qualifying shares. (T.R. 4-7.)

In 1958 the California corporation entered into contracts with Empire Gas and Engineering Co. in Miami, Florida to perform certain electrical construction work in Guam for Empire, which was a general contractor having contracts with the Navy in Guam. (T.R. 5.)

Subsequently the California corporation subcontracted the labor portion of such contracts to the Guam corporation and subcontracted the materials portions to Accurate. (T.R. 5-6.) On March 5, 1958 a special meeting of the Board of Directors of Accurate was held. (Exhibit 2.) The only directors shown are Elmer L. Farris, who owned and controlled all but the qualifying shares of plaintiff corporation, the California corporation and Land Sales of America, Ltd. and Elaine Farris. (Plaintiff's Exhibit 2.) At such special meeting, the minutes show the various assignments referred to above. All these various assignments provided that the books would be kept by Accurate (California) and a service charge would be

paid to Accurate of California of \$5,000.00 per year for services.

No effective assignment of the authority to make purchases of materials was ever effectively assigned to Land Sales. Plaintiff concedes that "Land Sales was not doing business in Guam." (T.R. 43, line 15.) Apparently Land Sales was not qualified in Guam (T.R. 11) and did not operate there (T.R. 34, lines 14-18). There is no evidence that any assignment was even accepted by Land Sales; that any purchases were made by Land Sales; that Land Sales had ever invoiced or collected any charges for materials to any one under these contracts, or that Land Sales ever did any work in Guam. Whatever the original intention may have been, such intention was never implemented. (Defendant's Exhibits B, C, D and E.)

Plaintiff corporation performed not only the labor end of Empire's electrical work but also performed the materials portion thereof. (T.R. 34, 35 and 36.)

Plaintiff's books of account were maintained under the supervision of William Boyd, a qualified public accountant, who also made plaintiff's original returns (Defendant's Exhibits B, C, D and E) from such books. These returns included in plaintiff's income, the entire income (both labor and material portions) from the Empire Gas and Engineering Co. contracts. (T.R. 18, 19 and 22.) The books and records of plaintiff, of Accurate (California) and of Land Sales were all separately maintained from each other. (T.R. 22, lines 20-22.) They were all maintained under Boyd's supervision. (T.R. 22, lines 23-24.)



The “thought” of shifting the material portion of the Empire contracts from plaintiff’s income to Land Sales income, was “brought up” when the “business privilege tax” was charged to plaintiff and later removed. (T.R. 8, 9 and 22.) This tax had been imposed with respect to the material or property portion of the Empire contract, but it was removed because “title to the property passed outside of Guam”. (T.R. 37, lines 18-26.)

Plaintiff’s books, reflecting the truth of the actual realization of this income, were not produced in court to prove this vital issue, notwithstanding the lower court’s pointed criticism in the court’s pretrial order, regarding plaintiff’s failure to produce these books at pretrial. (See also T.R. 40, lines 7-13.)

Years after the original returns were filed, amended returns were filed, in which the material portions of the income from the Empire contracts were omitted from plaintiff’s amended returns (T.R. 10, 11) and plaintiff filed claims for refund on such basis. In the deficiency notice (Exhibit 12) and in denying plaintiff’s claims for refund, defendant restored to plaintiff’s income the material portion of the Empire contracts and computed plaintiff’s income on the basis of the percentage of completion of the Empire contracts. (T.R. 48, lines 17-24.)

The deficiency notice “was not based on the amended returns filed,” (T.R. 48, lines 17-19 and T.R. 49, lines 11-18), but included both the material portion and the labor portion of the Empire contracts in

petitioner's income. (Petitioner's Exhibit 12, statement p. 1, paragraphs 2 and 3.)

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### **ISSUES PRESENTED**

1. District Court did not err in determining that the material portions of the Empire Engineering contracts in issue were actually performed by and realized by Accurate Electric Co. (Guam,) Inc.

2. District Court did not err in refusing to grant a new trial, when the court in its pretrial order had criticized plaintiff for not producing its books and records at the pretrial conference.

3. May the trial court make findings of fact from any evidence adduced at the trial which, in its judgment, has a bearing on the issues?

4. Is the defendant estopped to include in plaintiff's income, the material portion of the Empire contract income, when defendant removes the business privilege tax from such material?

5. Was plaintiff surprised or misled by any action by the District Court, or by defendant, into failing to produce its book of account and other records as evidence before the District Court?

6. Is it material to the issues herein, that defendant may not have contended before the District Court that the maintenance of plaintiff's books of account and records outside of Guam had any bearing on the taxable issues?

7. Does plaintiff's failure to produce in evidence its books of account and records, create an inference that, if produced, such books and records would have supported Commissioner's position that the entire Empire contract income was realized by plaintiff?

---

### SUMMARY OF ARGUMENT

Defendant contends that plaintiff realized the material portions of income from its contracts with Empire Engineering, which plaintiff had reported in its original returns from its books of account and other records and the Commissioner of Revenue and Taxation had assessed a deficiency in Guam income taxes against plaintiff, including in income such material portions from the Empire Engineering contracts. The Commissioner's denial of plaintiff's claims for refund was also based upon the inclusion in plaintiff's income of such material portions thereof.

The burden of proof was upon plaintiff to show that it had not realized such material income and plaintiff failed to produce in court its books of account and other records, which would have proved who realized such income. No other evidence was produced to show that plaintiff did not realize such income, as originally interpreted by it from its books of account and as reported in its original returns.

Plaintiff failed to adduce sufficient evidence to overcome the presumption of correctness of the Com-

missioner's denial of plaintiff's claims and his determination of deficiencies.

---

### ARGUMENT

Plaintiff's claims for refund were based primarily upon its contention that Land Sales of America, Inc. and not plaintiff corporation had realized the material portions of the income from the contracts with Empire Engineering. The determination of the deficiencies of \$9,855.42 also turns on the same issue.

This entire contract was performed on Guam and the evidence shows that plaintiff, Accurate Electric Company (Guam), Inc. performed all the material portions of such work on Guam. (T.R. 34, 35 and 36.) Accurate Electric Co. (Guam) was entitled to be compensated for this valuable performance and not the alleged assignee which did nothing.

There is no issue relative to the realization by plaintiff of the labor portion of the income.

While appellee's witness Hassell "admitted" that the materials portion of the Empire contract was taxable to "the corporation which realized it" (T.R. 36-37), plaintiff, in filing its original returns from its books of account, reported such material portions of the income, based upon its own interpretation of its books, the performance, the contracts and any assignments, that plaintiff had actually received and hence realized such material portions of the income for its own use and profit. Plaintiff failed to produce any



evidence to prove that Land Sales or any entity other than Accurate Electric Co. (Guam), Inc. had actually realized such material portions of the income from the Empire contract, or was entitled to receive any of such income for having performed the material portion of the contract.

Plaintiff's books of account and records were maintained since 1959 under the supervision of William Boyd, a qualified public accountant. (T.R. 18, 20.) He had been doing all of the accounting for Accurate Electric (Guam) all during that time. Boyd made up plaintiff's original income tax returns from its books for plaintiff for the fiscal years 1959, 1960, 1961, 1962, and 1963. (T.R. 19.) Presumably, plaintiff's books of account for these years correctly included both the material portions and the labor portions of plaintiff's income from the Empire Gas and Engineering Co. contract, as plaintiff's income, because, when Boyd made up the Guam income tax returns for plaintiff for those years from these books, he included such income as plaintiff's income in such returns.

The "thought" of filing amended returns for plaintiff, which shifted the material portion of the Empire contract income from plaintiff, was "brought up" when the gross receipts tax or business privilege tax was removed from the material under the contract (T.R. 22, lines 12-15), because title to such material passed outside of Guam (T.R. 37, lines 18-26).

This elimination of this entirely different tax from the material has no bearing or relevance whatsoever to the incidence of the income tax of plaintiff from

this material portion of the Empire contract income. It does not render plaintiff's Guam operation income from the contracts, taxable to Accurate (California) or to Land Sales, neither of which operated in Guam. The income remained plaintiff's Guam income and it is, therefore, Guam taxable income to plaintiff.

The alleged "mistake" of plaintiff of originally including its material portion of its Empire contract income in plaintiff's income, is not an acceptable reason for shifting plaintiff's income to another by filing erroneous amended returns, which excluded it. The removal of the gross receipts tax from the material does not require similar removal of plaintiff's income tax from the material sales. The incidence of the gross receipts tax has no bearing on the incidence of plaintiff's income tax on its Guam business operations. The business privilege tax was removed only because title passed outside of Guam. (T.R. 37, lines 18-26.)

By this action, the Commissioner is not estopped, for income tax purposes, to tax the material portion of the Empire Contracts income to plaintiff. None of the elements of estoppel is present. None was argued by plaintiff in its brief.

The Commissioner's restoration of this material portion of the Empire contract income to plaintiff is fully justified by the record. It was not a "mistake" to so include such income originally. The Commissioner's assessments, which are in issue here, were based upon the premise that all such income was realized by plaintiff, including the material portions of the contract with Empire. No evidence contradicting

the realization of this income by plaintiff, Accurate Electric Co. (Guam), Inc. was produced. The correctness of the Commissioner's actions contested herein could have been confirmed or refuted by the production by plaintiff of its books of account and other records, but plaintiff significantly chose not to produce them.

Plaintiff failed to prove that it was surprised or misled by any action of the District Court or of defendant into failing to produce its books and records as evidence before the District Court.

Plaintiff's failure to produce such books and records creates a strong inference that the books and records would have supported the Commissioner's position had they been made available to the District Court as evidence.

“. . . The production of weak evidence when strong is available can lead only to the conclusion that the strong would have been adverse. *Clifton v. United States*, 4 How. 242, 247, 11 L.Ed. 957. Silence then becomes evidence of the most convincing character . . .” citing cases. *Interstate Circuit v. United States* 306 U. S. 208, 226, 59 S.Ct. 467, 474. (1939).

Plaintiff was charged with the necessity of producing such books and records by the District Court in his Pretrial Order of June 18, 1967 in which he said in part:

“There was very little discussion at the pretrial conference because the plaintiff's books were not available locally, but the plaintiff contended that

its business practices were interwoven with those of a California corporation and certain sub-contracts.”

Under these circumstances, certainly plaintiff is in no position to claim “surprise” or being “misled into not producing all of the original books and records pertaining to the litigation”. Plaintiff was actually warned, so to speak, by the District Court to produce the records, by the court’s pretrial order.

The vital necessity for having the books in court is indicated by the witness Hassell. (T.R. 40, lines 7-13.)

Plaintiff had the burden of proof and it cannot shift to the District Court or to the defendant, the responsibility for its own failure to produce the books and records in court, as required by its burden of proof.

The Court of Appeals for the Ninth Circuit has “consistently held that determination by the Commissioner raises a presumption of correctness which disappears, once evidence which would support a contrary finding has been adduced in the trial of a contested issue . . .”

*Niederkrone v. Commissioner* 266 F.2d 238, 241 (C.A. 9, 1959) certiorari denied, *sub nom. Royce v. Com.* 359 U.S. 945, 79 S.Ct. 725 (1959); *Welch v. Helvering* 290 U.S. 111, 115, 54 S.Ct. 8, 9 (1933).

No evidence which would support a finding contrary to the realization of the material portion of the income from the Empire contract by plaintiff, was



adduced by the plaintiff. The judgment of the District Court must, therefore, be affirmed.

“A motion for a new trial is addressed to the sound discretion of the trial court and an order on such a motion is generally not reviewable except when the trial judge acts under a mistake of law, lacks power to grant the motion, fails to exercise his discretion or abuses his discretion.” *Pool v. Leone* 374 F.2d 961, 963, 964, (C.A. 10, 1967) cert. den. 389 U.S. 943.

None of these circumstances is applicable to the situation here. The motion for new trial was properly denied.

Plaintiff argues (pages 11 and 12) that Section 7422 (e) (Internal Revenue Code 1954) prevents the District Court from making its decision final as to the deficiency of \$9,855.42.

The suit on the taxpayer's claims for refund was filed on April 10, 1967. Prior to that date, the period (150 days) within which plaintiff could have petitioned, but did not petition Tax Court, plus 60 days thereafter, had expired and the deficiency then became collectible by defendant. The issues in the claims for refund and in the deficiency notice both involved the inclusion of the material portion of plaintiff's income from the Empire Gas and Engineering contracts. The court's decision on the claims for refund is res judicata as to the deficiency determined by defendant in the matter of the inclusion of this income in plaintiff's income for the years involved. The court's decision is, therefore, final on this inclusion

both as to the claims for refund and as to the deficiency determined on April 10, 1967 and obviously the provisions of Section 7422 (e) of the Internal Revenue Code are wholly without application here, as was improperly argued by plaintiff on pages 11 and 12 of its brief.

It is wholly immaterial that defendant may not have contended that the maintenance of plaintiff's books and records outside of Guam had any bearing on the taxable issues involved in this action.

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**EVIDENCE SUPPORTING CHALLENGED FINDINGS  
SPECIFIED BY PLAINTIFF AS ERROR**

Plaintiff, in its brief, specified as error the following findings of the trial court:

1. The District Court's finding that there was no effective assignment of the material portion of the Empire subcontract to Land Sales by Accurate Electric Co. (Guam).
2. The District Court's finding that Accurate Electric Co. (Guam) purchased any materials for its own account.
3. The District Court's finding that Accurate Electric (California) made an effective assignment of the material portion of the Empire subcontract to Accurate Electric Co. (Guam).

Except for the qualifying shares, Elmer L. Farris owned and controlled all the outstanding shares of Accurate Electric Co. (Guam), Accurate Electric Co.

(California) and Land Sales of America Ltd. (a Hong Kong Corporation) and was an officer and director of each such corporation. (T.R. 4, 5, 6, Pl. Exhibit 2.) Of these three corporations, only Accurate Electric Co. (Guam) was authorized to operate in Guam. It was the only corporation of the three which actually was shown to have operated in Guam. (T.R. 7, 11, 34, 35 and 36.)

Accurate Electric Co. (Guam) actually performed in Guam all of the material portion of the Empire contracts. (T.R. 34, 35 and 36.) Plaintiff conceded that "Land Sales was not doing business in Guam". (T.R. 43, line 15.)

The Empire contracts income was run through the books of Accurate Electric Co. (Guam) as indicated by the original returns made from those books by a qualified public accountant, who supervised the keeping of such books, and reported such income as the income of Accurate Electric Co. (Guam). (T.R. 18, 19, 20, 22, 23, 24, Defendant's Exhibits B, C, D and E.)

The "thought" of shifting the material portion of the Empire contracts, was "brought up" when the business privilege tax was charged to plaintiff and later removed (T.R. 8, 9 and 22), because "title to the property passed outside of Guam" (T.R. 37, lines 18-26).

These facts are wholly inconsistent with any effective assignment to Land Sales of America Ltd. (Hong Kong). These facts are consistent *only* with the

assignment of the materials portion of the Empire contract to Accurate Electric Co. (Guam). It must be assumed that, no matter how informal the means, Elmer L. Farris employed his control of this group of corporations to effectively assign the material portion of the Empire contracts to Accurate Electric Co. (Guam).

No books or records to the contrary were produced at the trial by plaintiff.

There is no evidence in the record that any assignment was actually accepted by Land Sales; that any material purchases were made by Land Sales; that Land Sales ever had invoiced or collected any charges for materials to Guam to any one of these contracts or, that Land Sales ever did any work or delivered any material to Guam under the Empire contracts.

The three foregoing questioned findings of the District Court were fully justified on the basis of the record because there is some competent evidence to support such findings. *Smith v. Howard* 322 P.2d 1034, 1037, *Weltman v. Kaye* 334 P.2d 917, 920. If there is any evidence consistent with the trial court's finding, such finding must stand. *Fritz v. Thompson* 271 P.2d 205, 209, *Noble v. Learned* 153 Cal. 245, 94 P. 1047, 1050.



**CONCLUSION**

The lower court therefore did not err in taxing the material portion of the Empire Gas Co. contracts for the years in issue to the plaintiff-appellant, and the judgment of \$9,855.42 should be affirmed.

Dated, Agana, Guam,  
July 17, 1968.

Respectfully submitted,  
PAUL J. ABBATE,  
Attorney General,  
THOMAS M. WILKINS,  
Assistant Attorney General,  
*Attorneys for Appellee.*

---

**CERTIFICATE OF COUNSEL**

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

THOMAS M. WILKINS,  
Assistant Attorney General,  
*Attorney for Appellee.*

No. 22,482

JUN 24 1966

IN THE

# United States Court of Appeals

FOR THE NINTH CIRCUIT

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ACCURATE ELECTRIC CO. (GUAM), INC.,	}
<i>Appellant,</i>	
VS.	
GOVERNMENT OF GUAM,	
<i>Appellee.</i>	

---

## APPELLANT'S OPENING BRIEF

On Appeal from the District Court of Guam.

---

BARRETT & FERENZ  
W. SCOTT BARRETT

Penthouse, 1924 Broadway  
Oakland, California 94612

FILED

Butler Bldg., Box 54  
Agana, Guam 96910

JUN 20 1966 Attorneys for Appellant

W. R. LUCK, CLERK



## SUBJECT INDEX

	Page
Jurisdiction .....	1
Statement of Facts.....	2
Questions Presented.....	4
Specification of Errors Relied On.....	5
Argument.....	6
I. The Contract Was Awarded to a California Corporation and Only the Labor Subcontract Assigned to Appellant....	6
II. Appellant's Books Were Kept and Audited by Appellee in California. No Facts Justifying Disregard of Corporate Entities Were Either Pleaded or Proved. The Court Erred in Refusing to Grant a New Trial.....	7
III. The Amended Returns Were Filed at Appellee's Suggestion That the Materials Subcontract Be Deleted.....	9
IV. The Court Erroneously Considered the Appellee's Defi- ciency Assessment Final and Unconnected With the Issues Raised by Appellant's Claim for Refund.....	11
Conclusion.....	12
Appendix .....	15

---

## TABLE OF AUTHORITIES CITED

### CASES

Carter Oil Co. v. McQuigg (7 Cir. 1940), 112 F. 2d 275.....	8
Commissioner of Internal Revenue v. Eldridge (9 Cir. 1935), 79 F. 2d 629, 102 ALR 500.....	7
Pool v. Leone (C.A. Colo. 1967), 374 F. 2d 961.....	8

---

### STATUTES

Government Code of Guam, §19700.....	11
Internal Revenue Code, §7422(e) .....	12
28 U.S.C., §§41, 1291, 1294.....	2
48 U.S.C., §1241i(h) (2) .....	1





**No. 22,482**

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ACCURATE ELECTRIC CO. (GUAM), INC.,	}
<i>Appellant,</i>	
VS.	
GOVERNMENT OF GUAM,	
<i>Appellee.</i>	

---

**APPELLANT'S OPENING BRIEF**

On Appeal from the District Court of Guam.

---

**JURISDICTION.**

This appeal is from an adverse judgment to appellant in an action filed in the District Court of Guam on April 10, 1967. In this action, appellant seeks refund of Guam income taxes for the years ended February 29, 1960, February 28, 1961, and February 28, 1962.

The District Court of Guam has jurisdiction of the cause under §1241i(h)(2) of Title 48, United States Code. Judgment adverse to appellant was en-

tered on October 9, 1967, motion for new trial was filed October 11, 1967, which was denied October 25, 1967, and notice of appeal was filed November 2, 1967. Jurisdiction is conferred on the United States Court of Appeals for the Ninth Circuit by §§41, 1291, and 1294 of Title 28, United States Code.

### **STATEMENT OF FACTS.**

Appellant is a Guam corporation who at all times pertinent to the action below was an electrical contractor in Guam. By common stock ownership, appellant was affiliated with a similarly named California corporation. In 1958 the California corporation entered into a contract with Empire Gas & Engineering Co. to perform certain electrical construction work in Guam, for Empire, who was a general contractor having prime contracts with the Navy for construction work in Guam. Thereafter, the California corporation assigned the labor portion of its subcontract with Empire to Appellant (R.T. 6-7). This apparently has never been disputed by the Government of Guam and is not at issue in this appeal. At the same time the California corporation assigned the material portion of these subcontracts to a Hong Kong corporation known as Land Sales of America, Inc. (R.T. 5-6). Thereafter, for the years involved, appellant performed the labor portion of the contracts and duly filed corporate income tax returns with the Government of Guam. These returns included income derived

from the labor portion of the subcontracts and, as well, mistakenly included income derived from performance of the material subcontract (R.T. 22).

In 1964 as a result of audits in California by auditors of appellee, a claim was made against appellant for Guam Business Privilege Taxes arising out of the material subcontract. At that time the contention was made by appellee that the material portion of the subcontract was subject to Guam Business Privilege Taxes. Thereafter, these taxes were abated (Pl. Ex. 4). Appellee's auditor suggested that appellant should file amended returns for the years in question since the tax returns, as filed, which included the material portion, were inconsistent with a determination made that the material part of the contract was not performed by appellant (Pl. Ex. 13).

Thereafter, amended returns were filed which omitted the cost of these goods and the sales price together with the net profit realized from the materials portion of the contract (Pl. Ex. 7, 8, 9). At the trial, appellee conceded the profit was taxable to the corporation receiving it (R.T. 36-37).

Claims for refund on the basis of the amended returns were duly filed.

Subsequently appellee proposed certain deficiencies based upon the amended returns. Appellant did not

file a redetermination proceedings but instituted the action below for refund of income taxes.

### QUESTIONS PRESENTED.

1. Did the court err in finding that the materials subcontract was performed by appellant when all the evidence demonstrated and appellee conceded that such subcontract was originally assigned to a corporation not a party to the action?

2. Can the trial court make findings of fact with respect to issues not raised by the parties in the pleadings or in the trial of the case?

3. Is the Government of Guam estopped to apply a different determination of facts with respect to income taxes than it has previously applied with respect to Business Privilege Taxes?

4. Is it an abuse of discretion to refuse to grant a new trial when:

(a) the moving party was surprised and in effect misled into not producing all of the original books and records pertaining to the litigation;

(b) the production of such evidence was not requested by the court at pretrial, nor by the respondent Government of Guam at any stage of the proceedings;



(c) the appellee never contended throughout any of the proceedings either prior to or in the midst of litigation that the maintenance of such records outside Guam had any bearing on the taxable issues involved?

#### **SPECIFICATIONS OF ERRORS RELIED ON.**

1. The District Court of Guam erred in finding that there was no effective assignment of the material portion of the Empire Gas electric subcontract by Accurate Electric Co. (Calif.) to Land Sales, Inc.

2. The District Court of Guam erred in finding that Accurate Electric Co. (Guam) purchased any materials for its own account.

3. The District Court of Guam erred in finding that Accurate Electric Co. (Calif.) made an effective assignment of the material portion of said electric subcontract to Accurate Electric Co. (Guam).

4. The District Court of Guam erred in holding that said Accurate Electric Co. (Guam) was taxable for both the material and labor portions of said subcontract.

5. The District Court of Guam erred in refusing to grant appellant's motion for a new trial on the grounds of surprise and excusable neglect.

## ARGUMENT.

## I.

**THE CONTRACT WAS AWARDED TO A CALIFORNIA CORPORATION AND ONLY THE LABOR SUBCONTRACT ASSIGNED TO APPELLANT.**

It is quite apparent that the court overlooked a vital and controlling fact which is not in dispute, is uncontraverted in the documentary evidence, and which requires reversal. That fact is simply which of the three corporations; appellant, the California corporation, or the Hong Kong corporation, had in fact the subcontracts for the materials with Empire Gas. The documentary evidence shows that Empire Gas awarded the subcontracts, both labor and material, to the California corporation. Appellant's contention is that the California corporation awarded the disputed part of the contract to a Hong Kong corporation. The Government contended that this assignment was questionable and placed into issue the question of assignment. Both the court and appellee, however, failed to consider the actual facts of the situation in that if the assignment was deemed to have been effective, then appellant is correct and the material part of the contract was with the Hong Kong corporation. If the assignment was not valid as contended by appellee, then the material portion of the contract stayed with the California corporation who was awarded the contracts in the first instance.

Therefore, whether the assignment was valid and effective is not material to the determination of the issues so far as the appellant was concerned. If the assignment was effective, the Hong Kong corporation was the material contractor or subcontractor. If the assignment was not effective, then that part of the contract remained with the California corporation and the deficiency assessment as well as the collection of taxes on that part of the contract against appellant was in error.

## II.

**APPELLANT'S BOOKS WERE KEPT AND AUDITED BY APPELLEE IN CALIFORNIA. NO FACTS JUSTIFYING DISREGARD OF CORPORATE ENTITIES WERE EITHER PLEADED OR PROVED. THE COURT ERRED IN REFUSING TO GRANT A NEW TRIAL.**

Appellee did not at any time, either before or after the below action was instituted, assert that the deficiencies were asserted, or that the claims for refund were denied, on the ground that appellant's books and records were not maintained in Guam, or that the corporate entities should be disregarded as fraudulent devices to evade taxes. There is nothing in the record before the court to justify the court's findings disregarding the corporate entities. *Commissioner of Internal Revenue v. Eldridge* (9 Cir. 1935), 79 F. 2d 629, 102 ALR 500. It is clear from the findings of fact in this regard that the court was in error in these

findings and was in error in the conclusions of law based thereon. Since the findings were contrary to uncontradicted evidence, they are subject to free review unaffected by any presumption upholding them. *Carter Oil Co. v. McQuigg* (7 Cir. 1940), 112 F. 2d 275.

It is apparent that the court relied heavily upon the fact that appellant's books and records, as well as those of the California and Hong Kong corporations, were not maintained in Guam (R.T. 68). Although the California and Hong Kong corporations concededly had contracts with Guam in a minimal legal sense, there is no legal or factual reason why these corporations should maintain separate books and records on Guam.

The court inconsistently indicated that the presence of the original books and records were necessary to render a decision (R.T. 68), while stating that appellee was bound by whatever appellant's witnesses said the books showed (R.T. 63). In its motion for a new trial, appellant offered to produce these records and the motion was denied. An order denying a motion for a new trial is reviewable when the judge acts under a mistake of law or abuses his discretion. *Pool v. Leone* (C.A. Colo. 1967), 374 F. 2d 961.

Appellee elected not to attend the depositions of Mr. Faris and his accountant, and did not advise or

request of counsel that these records be produced. The pretrial order is silent on the production of these documents. Appellant was, therefore, justified in assuming and concluding that the testimony taken and the documents offered were sufficient to establish its case on the issues as framed by the pretrial order and the other pleadings.

### III.

#### **THE AMENDED RETURNS WERE FILED AT APPELLEE'S SUGGESTION THAT THE MATERIALS SUBCONTRACT BE DELETED.**

The basis for appellant's claims for refund arises out of deletion of \$141,000.00 profit realized from the materials subcontract. This materials subcontract was deleted from the amended returns at the suggestion of Mr. P. A. Kar after audit of appellant's books in California (Pl. Ex. 13). Appellee conceded the profit realized from the materials subcontract was not taxable to appellant. This is apparent from the testimony of Mr. Frank Hassell which appears in the record as follows:

"Q. What you are saying is that if the material contract involved any profit the profit should have been taken into Guam, Accurate Electric (Guam) instead of Land Sales.

"A. Not necessarily. It should have been taken by the profit, by the corporation which realized it.



"Q. All right, then, if Land Sales realized it isn't it correctly taken out of the amended tax return?

"A. That is correct. Whatever corporation realized the income would be taxable by Guam for having done business in Guam."

(R.T. 36-37)

"Q. All right. And you are contending if there was an element of profit upon the material contract, it should have been to Accurate Electric (Guam)?

"A. No, I do not. I contend it was taxable to whatever corporation realized that profit.

"Q. But we are only concerned now with Accurate Electric (Guam), aren't we?

"A. That's true."

(R.T. 39)

Appellee conceded that the only evidence they had after audit of appellant's books that the \$141,000.00 profit was ever paid to appellant was the filing of the original returns which, if course, were in error on that point (R.T. 44-45).

Further, appellee used appellant's amended returns in assessing a deficiency based upon income shown in the original returns.

“Q. But isn’t it a fact that the report signed by Mr. Maddox and dated April 6, 1965, Exhibit 12 for the plaintiffs, shows in regards to that year that the difference was computed by taking the income from the original return and then disallowing certain deductions and allocations of overhead on the amended return? Now wasn’t this consistently done?

“A. That is, generally speaking, true.”

(R.T. 60)

#### IV.

#### **THE COURT ERRONEOUSLY CONSIDERED THE APPELLEE’S DEFICIENCY ASSESSMENT FINAL AND UNCONNECTED WITH THE ISSUES RAISED BY APPELLANT’S CLAIM FOR REFUND.**

After the claims for refund were filed based upon the amended returns filed by appellant, appellee assessed a deficiency. Since the claims were already on file and concerned the same subject matter, no complaint was filed with the District Court sitting as a Tax Court pursuant to §19700 of the Government Code. The court erroneously assumed that appellant’s failure to appeal to the Tax Court side of the District Court conclusively determined the issue of the deficiency.

However, since the claims for refund were filed long before the deficiency assessment, the court should

have considered the deficiency assessment as an integrated matter. Internal Revenue Code, §7422(e). Had it done so, it is quite obvious that the deficiency assessment could not have been sustained. Deductions and expenses were deleted in the amended returns which were related to the materials subcontract. The profit from the materials subcontract was also deleted. The Government then assessed a deficiency based upon the deletion of expenses and deductions from the amended returns and the inclusion of the profit from the materials subcontract as stated in the original returns. Obviously, since the appellee had rejected the amended returns, it could hardly assess a deficiency by using figures from both the original and the amended returns to its own advantage and the prejudice of the appellant (R.T. 60).

### **CONCLUSION.**

There is no evidence to sustain the findings of the District Court. Assuming that there was a lack of evidence on the part of appellant to thoroughly convince the District Court of the correctness of its position, the appellant was nevertheless precluded from introducing such evidence consisting of the books and records of the corporation.

Appellant did carry the burden of proof on all issues raised by appellee in its answer and those set

forth in the pre-trial order. There is no contradictory evidence and the important issues are in fact conceded by appellee. It is, therefore, respectfully submitted that the judgment should be reversed.

Dated June 14, 1968, at Oakland, California.

Respectfully submitted,

BARRETT & FERENZ

By W. SCOTT BARRETT

*Attorneys for Appellant*

**CERTIFICATE.**

I certify that in connection with the preparation of this brief, I have examined Rules 18 and 19<sup>and 39</sup> of the United States Court of Appeals for the Ninth Circuit, and that in my opinion the foregoing brief is in full compliance with those rules.

W. SCOTT BARRETT



## **APPENDIX**



## A P P E N D I X

## EXHIBITS.

No.	Marked	Received	Description
1	5	5	Letter, 8-30-67, Magee to Ferenz
2	5	5	Waivers, Minutes of Board, Accurate (California), March 1958 thru August, 1958
3	8	8	Purchase orders, Empire Gas Engineering Co., and Agreements, Minutes of of Board, Accurate (California)
4	9	9	Copy, letter, 1-14-66, Tax Div. Gov. Guam to Faris
5	9	9	Supplemental Report, 4-22-65, Tax Audit Div., Gov. Guam
6	9	9	Report, 4-22-65, Tax Audit Div., Gov. Guam
7	16	9	Amended Return, Accurate (Guam), 3-1-60 to 2-28-61
8	16	9	Amended Return, Accurate (Guam), 3-1-61 to 2-28-62
9	16	9	Amended Return, Accurate (Guam), 3-1-62 to 2-28-63
10	28	9	Supplemental Report, 3-23-65, Tax Audit Div.
11	28	9	Report, 3-23-65, Tax Audit Div. Gov. Guam
12	28	9	150-day Letter, with computations, 4-6-65
13	51	52	Copy, letter, 4-7-64, Tax Div. to Faris
A	53	55	Amended Tax Return, Accurate (Guam), 3-1-59 to 2-28-60
B	53	55	Tax Return, Accurate (Guam), 3-1-60 to 2-28-61
C	53	55	Tax Return, Accurate (Guam), year ending 2-28-62
D	53	55	Tax Return, Accurate (Guam), 3-1-62 to 2-28-63
E	53	55	Tax Return, Accurate (Guam), 3-1-63 to 2-29-64
F	53	55	Transcript of Account, Accurate (Guam)



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IN THE UNITED STATES COURT OF APPEALS  
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ROY O. DISNEY and EDNA F. DISNEY,  
Plaintiffs

v.

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Defendant-Appellant

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ON APPEAL FROM THE JUDGMENT OF THE UNITED STATES  
DISTRICT COURT FOR THE CENTRAL DISTRICT OF CALIFORNIA

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REPLY BRIEF FOR THE APPELLANT

---

MITCHELL ROGOVIN,  
Assistant Attorney General,

LEE A. JACKSON,  
MEYER ROTHWACKS,  
EDWARD LEE ROGERS,  
Attorneys,  
Department of Justice,  
Washington, D. C. 20530.

Of Counsel:

WILLIAM MATTHEW BYRNE, JR.,  
United States Attorney.  
CHARLES H. MAGNUSON  
Assistant Chief, Tax Division  
ROBERT T. JONES,  
Assistant United States Attorney.

FILED

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Attorneys,  
Department of Justice,  
Washington, D. C. 20530.

Of Counsel:

WILLIAM MATTHEW BYRNE, JR.,  
United States Attorney.

CHARLES H. MAGNUSON  
Assistant Chief, Tax Division

ROBERT T. JONES,  
Assistant United States Attorney.

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## TABLE OF CONTENTS

	<u>Page</u>
I. The amounts in question paid to taxpayers are includable in their gross income -----	1
A. General principles -----	1
B. The reimbursements constitute additional compensation to the taxpayer -----	3
II. The wife's travel expenses are not deductible ----	10
A. The taxpayer's wife performed only incidental services not constituting actual business activities -----	10
B. That taxpayer's wife may have enhanced the corporate image does not make the expenses deductible -----	12
C. That the corporation may be entitled to deduct the amounts paid to the taxpayer to cover his wife's travel expenses does not make them deductible by the taxpayer -----	14
Conclusion -----	16
Appendix -----	17

## CITATIONS

### Cases:

<u>Adelson v. United States</u> , 342 F. 2d 332 -----	15
<u>Alabama-Georgia Syrup Co. v. Commissioner</u> , 36 T.C. 747, reversed sub nom. <u>Whitfield v.</u> <u>Commissioner</u> , 311 F. 2d 640 -----	11
<u>Allenberg Cotton Co. v. United States</u> , decided December 2, 1960 (7 A.F.T.R. 2d 368) ---	9
<u>Campbell v. Commissioner</u> , decided June 8, 1961 (P-H Memo T.C., par. 61,166) -----	11
<u>Cavanagh v. Commissioner</u> , 36 T.C. 300 -----	7
<u>Chianese v. Commissioner</u> , decided June 30, 1950 (P-H Memo T.C., par. 50,201) -----	6
<u>Cullinan v. Commissioner</u> , 5 B.T.A. 996 -----	6
<u>Dean v. Commissioner</u> , 35 T.C. 1083 -----	14
<u>Duncan v. Bookwalter</u> , 216 F. Supp. 301 -----	13



Cases (continued):

Page

<u>England v. United States</u> , 345 F. 2d 414, certiorari denied, 382 U.S. 986, reversing 226 F. Supp. 762 -----	8
<u>Gray v. Commissioner</u> , 10 T.C. 590 -----	7
<u>Gotcher v. United States</u> , 259 F. Supp. 340 -----	11
<u>Heidl v. Commissioner</u> , decided January 17, 1964 (P-H Memo T.C., par. 64,007) -----	3, 11
<u>James v. United States</u> , 308 F. 2d 204 -----	2
<u>Jenkins v. Commissioner</u> , decided December 27, 1967 (P-H Memo T.C., par. 67,257) -----	6, 9
<u>Kloppenburg v. United States</u> , decided November 1, 1965 (17 A.F.T.R. 2d 507) -----	11
<u>Koons v. United States</u> , 315 F. 2d 542 -----	2
<u>Lickert v. Commissioner</u> , decided February 28, 1964 (P-H Memo T.C., par. 64,047) -----	4, 5
<u>McDonell v. Commissioner</u> , decided January 31, 1967 (P-H Memo T.C., par. 67,018) -----	2, 13
<u>Patterson v. Thomas</u> , 289 F. 2d 108 -----	4, 14
<u>Rieley v. Commissioner</u> , decided March 31, 1964 (P-H Memo T.C., par. 64,066) -----	9, 11
<u>Ritter v. United States</u> , 393 F. 2d 823, petition for certiorari filed July 18, 1968 (37 U.S. Law Week 3049) -----	8
<u>Sanitary Farms Dairy, Inc. v. Commissioner</u> , 25 T.C. 463 -----	7
<u>Siegfried v. United States</u> , decided May 26, 1955 (48 A.F.T.R. 1821) -----	7
<u>Silverman v. Commissioner</u> , 253 F. 2d 849 -----	4, 14
<u>Smith v. Warren</u> , 388 F. 2d 671 -----	15
<u>Starr v. Commissioner</u> , 46 T.C. 743 -----	7
<u>Steinhort v. Commissioner</u> , 335 F. 2d 496 -----	9, 15
<u>Thomas v. Commissioner</u> , decided March 14, 1939 (P-H Memo B.T.A., par. 39,112) -----	13
<u>United States v. Correll</u> , 389 U.S. 299 -----	2, 15
<u>United States v. Woodall</u> , 255 F. 2d 370, certiorari denied, 358 U.S. 824 -----	2
<u>Van Rosen v. Commissioner</u> , 17 T.C. 834 -----	2, 7
<u>Warwick v. United States</u> , 236 F. Supp. 761 -----	11
<u>Zubrod v. Commissioner</u> , decided October 19, 1967 (P-H Memo T.C., par. 67,204) -----	9, 11





Page

**Statutes:**

**Internal Revenue Code of 1954:**

Sec. 61 (26 U.S.C. 1964 ed., Sec. 61) -----	2
Sec. 62 (26 U.S.C. 1964 ed., Sec. 62) -----	4
Sec. 162 (26 U.S.C. 1964 ed., Sec. 162) -----	4, 10
Sec. 274 (26 U.S.C. 1964 ed., Sec. 274) -----	5

**Miscellaneous:**

Rev. Rul. 54-429, 1954-2 Cum. Bull. 53 -----	7
T.D. 6291, 1958-1 Cum. Bull. 63 -----	15
<b>Treasury Regulations on Income Tax:</b>	
Sec. 1.162-2 (26 C.F.R., Sec. 1.162-2) -----	10
Sec. 1.162-17 (26 C.F.R., Sec. 1.162-17) -----	4, 17



IN THE UNITED STATES COURT OF APPEALS

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ROY O. DISNEY and EDNA F. DISNEY,

Plaintiffs

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Defendant-Appellant

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ON APPEAL FROM THE JUDGMENT OF THE UNITED STATES  
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---

REPLY BRIEF FOR THE APPELLANT

---

In our opening brief we contended that the amounts paid to the taxpayer to reimburse him for his wife's travel expenses were includable in his gross income (Br. 9-14); we contended further that, with respect to the taxpayer, those expenses were non-deductible personal expenses, not deductible business expenses (Br. 14-24). In their brief, the taxpayers have challenged both contentions.

I

THE AMOUNTS IN QUESTION PAID  
TO TAXPAYERS ARE INCLUDABLE  
IN THEIR GROSS INCOME

A. General principles

It is well established that amounts paid to taxpayers by their employers to defray travel or similar expenses are includable in



gross income; then, the expense is deductible if, but only if, it meets the specific statutory requirements therefor, a matter of policy for Congress to determine. United States v. Woodall, 255 F. 2d 370, 373 (C. A. 10th, 1958), certiorari denied, 358 U.S. 824; accord, Koons v. United States, 315 F. 2d 542 (C. A. 9th, 1963); see also United States v. Correll, 389 U.S. 299 (1967); James v. United States, 308 F. 2d 204 (C. A. 9th, 1962). This traditional approach to such problems is a practical necessity, for a serious erosion of the tax base would result if taxpayers could exclude a reimbursement from gross income at the outset on the vague ground that the reimbursed expense was incurred for the employer's benefit--which is as true of taxable compensation as it is of the employer's 1/ other expenses--without determining whether the expense satisfies the requirements of the relevant deduction provisions. Further, contrary to the District Court's apparent view (I-R. 149), to be within Section 61(a) a receipt need not be compensation for services, for that is only one example of gross income (Section 61(a)(1)) and the statute is "not limited to" the examples set forth therein. In

1/ As pointed out in Van Rosen v. Commissioner, 17 T.C. 834, 838 (1951), salaries would not be provided "unless the employer regarded the expenditures as being for his convenience" or benefit. Accordingly, contrary to taxpayer's contention here, simply that the corporation may have decided that its business benefited from the expenses in question does not determine whether or not their payment constituted additional compensation to taxpayers. The clearest example of an error (and confusion) in this respect is that made in McDonnell v. Commissioner, decided January 31, 1967 (P-H Memo T.C., par. 67,018), where the court states, as a reason for finding that the amounts paid to taxpayers were not additional compensation for services rendered, that the trips was (p. 129) "no different from any other business trip requiring their services--including Jeanne

(continued)





the absence of the applicability of a specific statutory exclusion from gross income, the amounts in question received by the taxpayers are includable in their gross income. (See our opening brief, pp. 10-12.) Taxpayer's attempt, hereinafter discussed, to avoid the broad scope of Section 61(a) is, we submit, without substantial merit.

B. The reimbursements constitute additional compensation to the taxpayer

1. The taxpayer's primary contention (Br. 10-11, 13-28) is that the District Court was correct in holding (I-R. 149) that the amounts paid to him to reimburse him for his wife's travel expenses were (Br. 11) "not compensatory" and, therefore, did not constitute gross income. It may be true that the amounts paid for Mrs. Disney's expenses by Walt Disney Productions did not constitute compensation to her, for it is doubtful that she performed any substantial services.<sup>2/</sup> But, since the amounts paid to the taxpayer defrayed his expenses of taking his wife with him on the trips, and he is an employee, such amounts constitute additional compensation to him; thus, the only

---

1/ (continued)

[the wife] whose duties were substantial." To the contrary, that she performed services demonstrates the compensatory nature of the payments and probably also allows her an offsetting business expense deduction. (See our opening brief, p. 13.)

2/ It is as true here as it was in Heidl v. Commissioner, decided January 17, 1964 (P-H Memo T.C., par. 64,007), p. 31, that "Whatever contacts she had with \* \* \* [the corporate business], either while she was at home or during the trip, were apparently not considered sufficiently valuable to cause the payment to her of any compensation for services." Accordingly, taxpayer does not contend that his wife can deduct those expenses as her ordinary and necessary business expenses. Instead, he contends (Br. 28-34) that those expenses are his own business expenses, a contention discussed infra, Part II.



question is whether he may deduct the expenses. See Silverman v. Commissioner, 253 F. 2d 849, 852-853 (C. A. 3d, 1958); Patterson v. Thomas, 289 F. 2d 108, 112 (C. A. 5th, 1961).

2. That Congress intended gross income to include the reimbursement of travel expenses is implicit in Section 62(2)(A) (B), which allow, respectively, deductions from gross income for specified business expenses of an employee for which he has been reimbursed by his employer and for business traveling expenses. Clearly, if the reimbursement of such travel expenses did not constitute gross income, there would be no occasion to permit such deductions.

3. To support his contention that the amounts in question are not includable in gross income, taxpayer relies (Br. 18-19) on Section 1.162-17(b)(1) of the Treasury Regulations on Income Tax (1954 Code), Appendix, infra, and Lickert v. Commissioner, decided February 28, 1964 (P-H Memo T.C., par. 64,047), which was concerned with that regulation. Contrary to taxpayer's apparent assumption, however, Section 1.162-17 of the Regulations is not a gross income regulation but a business deduction regulation. This is evident from its designation; it is issued under Section 162, the business expense deduction provision, not under Section 61(a), the gross income provision. Further, it applies only to (Sec. 1.162-17(a) of the Regulations, Appendix, infra)--

those expenses which are ordinary and necessary in the conduct of the taxpayer's business and are directly attributable to such business. The term does not include nondeductible personal, living or family expenses.



The purpose of this regulatory provision is to provide rules for the substantiation of such expenses when claimed as deductions. See also Section 274<sup>3/</sup> and the Regulations issued thereunder. This is clear from the Lickert case, supra, for the court, in determining whether or not the requirements of the regulation had been satisfied, correctly stated that (p. 416) "The primary issue is whether petitioners are entitled to deduct \* \* \* travel and entertainment expenses for which petitioner was reimbursed by his employer." (Emphasis supplied.) The court held (p. 417) that the taxpayer had "done about everything required by \* \* \* [the] regulations \* \* \* in reporting and substantiating his reimbursed expenses. Sec. 1.162-17 (b)(1) Income Tax Regs., \* \* \* ."

In Section 1.162-17, then, the Commissioner has provided, for purposes of administrative convenience both to himself and to taxpayers, that as to business expenses deductible under the statute, if the employer reimburses the employee therefor pursuant to a system under which the employee adequately accounts to the employer for the expenses, the Commissioner does not require that the employee go through the formality of first including the reimbursement in gross income on his return and then deducting it. Instead, he simply indicates on the return that he has received items from his employer as reimbursements pursuant to such a system. The significant point here is that Section 1.162-17 corroborates the long-standing rule that such reimbursements are necessarily gross income items.

---

<sup>3/</sup> Section 274 was added to the 1954 Code by Section 4(a), Revenue Act of 1962, P. L. 87-834, 76 Stat. 960.





Therefore, it is appropriate to provide regulatory rules respecting the substantiation of the reimbursed expenses for deduction purposes. The regulation, then, offers no support to taxpayer's contention that a reimbursement of a travel expense is not conceptually a gross income item within Section 61(a). To the contrary, it stands for exactly the opposite proposition, even where the expense is incurred (Sec. 1.162-17 (b)(1)) "solely for the benefit of \* \* \* [the] employer \* \* \* ."

Accordingly, insofar as the District Court may have relied (I-R. 142) on Section 1.162-17 of the Regulations for its holding that the amounts paid to taxpayers were non-compensatory items excludable from gross income (I-R. 149), it erred. Jenkins v. Commissioner, decided December 27, 1967 (P-H Memo T.C., par. 67,257) (pp. 1462-1463).

4. None of the cases cited by taxpayer (Br. 14-15) involve either the concept of gross income or the concept of any exclusion therefrom. Instead, they are all concerned with whether or not gross income should be reduced by certain expenses to arrive at taxable income, which, in each case, depended on whether the expense was in fact incurred and (or) whether it was deductible as an ordinary and necessary business <sup>4/</sup>expense.

4/ For example, in Cullinan v. Commissioner, 5 B.T.A. 996 (1927), the taxpayer, traveling for a corporation on business, incurred travel expenses in excess of his reimbursements. On his return, he attached a statement that the payments were reimbursements for such expenses and did not include the amounts in income or claim deductions therefor. The court held that the traveling expenses exceeded the reimbursements and it was, therefore, error to add the reimbursements to (p. 999) "the reported net income." (Emphasis supplied.)

In Chianese v. Commissioner, decided June 30, 1950 (P-H Memo T.C., par. 50,201), the Commissioner disallowed all expense deductions claimed on the return (which were excessive) and then allowed the taxpayers \$6 per day for foreign travel expense deductions, thereby including \$2 of the \$8 per day reimbursement as net gain. The court

(continued)



5. Taxpayer also relies (Br. 15-17) on the rule embodied in Rev. Rul. 54-429, 1954-2 Cum. Bull. 53, that reimbursements for certain direct moving expenses where the employee is moved primarily for the convenience of the employer are excludable from gross income. See also Cavanagh v. Commissioner, 36 T.C. 300 (1961); Starr v. Commissioner, 46 T.C. 743 (1966), pending on appeal (C. A. 10th - No. 9370). The ruling and the cases interpreting it are limited to moving, not traveling, expenses. The apparent rationale for the ruling is that the employer, by transporting the employee from one business location to another at his own expense and for the benefit of his own business, is, in effect, simply (Van Rosen v. Commissioner, 17 T.C. 834, 838 (1951))--

4/ (continued)

found (p. 639) that the taxpayer's "actual expenses while on foreign travel \* \* \* were \$8.00 per day" and, therefore, that the Commissioner erred in his determination.

In Sanitary Farms Dairy, Inc. v. Commissioner, 25 T.C. 463, 467 (1955), again only a deduction question was involved, the court stating that "the cost of a big game hunt in Africa does not sound like an ordinary and necessary expense of a dairy business \* \* \* but the evidence in this case shows \* \* \* that it was \* \* \*."

In Gray v. Commissioner, 10 T.C. 590, 596-597 (1948), the only question was whether or not the expense had in fact been incurred and, if so, whether it had been incurred in business activity and business travel.

In Siegfried v. United States (N.D. Okla.), decided May 26, 1955 (48 A.F.T.R. 1821), the only question involved was the substantiation of the alleged expense items, reimbursement of which was not reported on the income tax returns, nor were deductions claimed therefor. The court held that the portion of the reimbursement in controversy was not includable in taxable income.



furnishing \* \* \* a place to work and \* \* \* supplying \* \* \* the tools and machinery with which to work. The fact that certain personal wants and needs of the employee were satisfied was plainly secondary and incidental to the employment.

While it may be that it would not have been unreasonable for the Commissioner to refuse to grant favorable tax treatment for such moving expense items, there certainly is no basis for attempting to extend that ruling to other types of expense reimbursements, such as the amounts paid for the wife's travel expenses involved here. Cf. England v. United States, 345 F. 2d 414 (C. A. 7th, 1965), certiorari denied, 382 U.S. 986, reversing 226 F. Supp. 762, 766 (S.D. Ill., 1964); Ritter v. United States, 393 F. 2d 823 (Ct. Cl., 1968), petition for certiorari filed July 18, 1968 (37 U.S. Law Week 3049).

6. The other rulings relied on by the taxpayer (Br. 17-18) involve the reimbursement of expenses incurred in carrying out voluntary, gratuitous services in a non-business context for religious, educational and medical organizations. Under those particular circumstances, the Commissioner ruled that the reimbursements did not constitute gross income. Those situations bear no resemblance to that involved here where the taxpayer's wife incurred expenses in traveling with her husband on trips that were admittedly business trips for him, for which expenses she was reimbursed by his employer. In the situations covered by the rulings, unlike the situation here,





there was no employee who benefited by his employer's payment of the expenses in question.

7. While the cases relied on by taxpayer (Br. 20-23) are distinguishable on their facts from the instant case, for the reasons stated above and in our opening brief (pp. 9-14), we think they were erroneously decided insofar as they hold that amounts paid to taxpayers to reimburse them for traveling expenses are not includable in gross income. See Jenkins v. Commissioner, decided December 27, 1967 (P-H Memo T.C., par. 67,257); cf. Rieley v. Commissioner, decided March 31, 1964 (P-H Memo T.C., par. 64,066), in which the Tax Court expressly declined to follow Allenberg Cotton Co. v. United States (W.D. Tenn.), decided December 2, 1960 (7 A.F.T.R. 2d 368); see also Zubrod v. Commissioner, decided October 19, 1967 (P-H Memo T.C., par. 67,204).

8. In the light of the foregoing discussion, the taxpayer errs when he argues (Br. 25) that the reimbursements of expenses incurred on business, as distinguished from pleasure, trips are excludable ab initio from gross income. The only specific exclusion rule that he has relied on--namely, the reimbursement of moving expenses incurred primarily for the benefit of the employer--is inapplicable here because we are not here concerned with moving expenses and, moreover, the District Court here did not find that the expenses in question were incurred primarily for the benefit of the employer. (I-R. 144-151.) Instead, the District Court, like the taxpayer here, mistakenly relied on Section 1.162-17 of the Regulations



for holding that the expenses in question were excludable from (Section 61(a)) "gross income," whereas that regulatory provision is concerned solely with the substantiation requirements of deductible business expenses.

## II

### THE WIFE'S TRAVEL EXPENSES ARE NOT DEDUCTIBLE

#### A. The taxpayer's wife performed only incidental services not constituting actual business activities

In light of the District Court's findings (I-R. 147; see also I-R. 138-139), with which the taxpayer apparently agrees (Br. 5, 7), it is apparently not disputed that his wife's activities on his business trips, aside from her sightseeing and shopping, were primarily wifely and social--that is, she participated in entertaining and attended business functions with her husband and generally helped her husband in any way that a wife under such circumstances might be expected to do.<sup>5/</sup> (See our opening brief, pp. 4-6.) As such, the expenses incurred in carrying on such activities are not deductible under Section 162(a) as interpreted by the applicable regulatory provision and a long line of cases involving similar activities by taxpayers' wives on comparable business trips. Sec. 1.162-2(c) of the Treasury Regulations on Income Tax (1954 Code);

<sup>5/</sup> We do not agree, however, with taxpayer's statement (Br. 5) that his wife "makes arrangements for different functions."



Alabama-Georgia Syrup Co. v. Commissioner, 36 T.C. 747, 753-755, 768-769 (1961), reversed on another issue sub nom. Whitfield v. Commissioner, 311 F. 2d 640 (C. A. 5th, 1962); Campbell v. Commissioner, decided June 8, 1961 (P-H Memo T.C., par. 61,166, pp. 927-928; see also pp. 909-911, 922-923); Kloppenburg v. United States (S.D. Ill.), decided November 1, 1965 (17 A.F.T.R. 2d 6/<sup>6/</sup> 507, 508); Heidl v. Commissioner, decided January 17, 1964 (P-H Memo T.C., par. 64,007); Rieley v. Commissioner, decided March 31, 1964 (P-H Memo T.C., par. 64,066); Zubrod v. Commissioner, decided October 19, 1967 (P-H Memo T.C., par. 67,204) (and see the cases cited in our opening brief, pp. 18-19). But cf. Warwick v. United States, 236 F. Supp. 761 (E.D. Va., 1964); Gotcher v. United States, 259 F. Supp. 340 (E.D. Tex., 1966).

In the cases cited above disallowing the claimed deduction, the wives helped their husbands entertain in a business context, performed incidental secretarial work and generally assisted their

6/ As stated in the Kloppenburg case, supra, p. 508:

[The wife's] \* \* \* expenses would be incurred for a bona fide business purpose only if she was actively engaged in the plaintiff's business and her presence was necessary \* \* \* . The assistance that a wife who is interested in her husband's business affairs would normally provide her husband does not itself permit the deduction of her expenses \* \* \* .





husbands in any way they could just as the taxpayer's wife did in the instant case. But, since such activities are the normal types of activities that a wife might be reasonably expected to carry on when accompanying her husband on business trips, they do not qualify the wife's expenses as deductible business expenses. Nothing in the record in the instant case distinguishes it from the cases cited, supra, in which it was held, in accord with Section 1.162-2 (c) of the Regulations, that comparable expenses were not deductible.

B. That taxpayer's wife may have enhanced the corporate image does not make the expenses deductible

The taxpayer attempts to distinguish the instant case from the cases in which the deduction was not permitted on the ground that the corporate management believed the wife's presence on the taxpayer's business trips tended to enhance the corporate family-entertainment-and-product image. A comparable allegation, however, can be made with respect to many other types of businesses in addition to that involving family-type entertainment and products. But looking at that category alone, the total number of items merchandised by Walt Disney Productions, for example, was estimated to be 5,000, including (I-R. 37) "games, toys, boys' clothing, dresses, stuffed dolls, cutlery, sports equipment, lamps, ceramics, furniture and costume jewelry \* \* \* [and] a wide variety of books and magazines ranging from comic strips and comic books to hard-bound, beautifully illustrated publications." Thus, if taxpayer's position were to be



adopted, many corporations might find their images enhanced, for a variety of reasons growing out of their particular types of business activity, by having the wives of their executives accompany them on business trips. In short, the so-called distinction urged by the taxpayer is not a distinction at all for, if adopted, it would cover a great portion--if not substantially all--of American industry involved in the production or selling of merchandise, thereby making the regulation a practical nullity.

Moreover, while we seriously doubt that the primary purpose of having the taxpayer's wife accompany him on his business trips was to enhance the "image" of the corporation (I-R. 147) "as a disseminator of family entertainment," even if true, it tends to corroborate the Government's position that the wife was limited in her activities to wifely and social activities--"incidental" activities within the meaning of the regulation. The desired family image would preclude her from carrying on business activities as a business partner or associate. That is, unlike the wives involved in Thomas v. Commissioner, decided March 14, 1939 (P-H Memo B.T.A., par. 39,112); McDonell v. Commissioner, decided January 31, 1967 (P-H Memo T.C., par. 67,018); and Duncan v. Bookwalter, 216 F. Supp. 301 (W.D. Mo., 1963), she could not have assumed the role of an active professional business woman; instead, the family image would require that she be herself--a general helpmate to her husband, a gracious wife and hostess. While this may entitle the corporation to a deduction, it precludes a deduction for the taxpayer pursuant to Section 162(a)



and Section 1.162-2(c) of the Regulations.

- C. That the corporation may be entitled to deduct the amounts paid to the taxpayer to cover his wife's travel expenses does not make them deductible by the taxpayer

As clearly indicated in Silverman v. Commissioner, 253 F. 2d 849, 852 (C. A. 3d, 1958), and Patterson v. Thomas, 289 F. 2d 108, 112-113 (C. A. 5th, 1961), that a corporation may find it useful to its business to have its executives accompanied by their wives on business trips--for example, to enable them to function more effectively--does not mean that the executives may deduct their wives' travel expenses as expenses incurred by them in the pursuit of their business activities on behalf of the corporation. The question in such cases, contrary to taxpayer's view (Br. 34), is whether the taxpayer would be entitled to deduct those expenses if he were paying for them himself (Dean v. Commissioner, 35 T.C. 1083, 1089-1090 (1961)), which would depend on whether the wife's activities constituted actual business endeavors. Here, viewed from that perspective, the expenses in question are clearly non-deductible personal expenses. While the wife's activities indirectly aided the taxpayer in carrying on his business activities (including the enhancement of the corporate image), they remain, nevertheless, only incidental thereto within the meaning of the regulation and the cases cited, supra, Part II, B.





See also Steinhort v. Commissioner, 335 F. 2d 496 (C. A. 5th, 1964); Smith v. Warren, 388 F. 2d 671 (C. A. 9th, 1968).

By Section 1.162-2(c) of the Regulations, promulgated in 1958,<sup>7/</sup> the Commissioner has undertaken to draw a rule of practical administration distinguishing between personal and business expenses in an area involving limitless factual variations where many different lines could be drawn by individual courts. It achieves certainty and essential equality of tax treatment among similarly situated taxpayers. Accordingly, it is entitled to respect. United States v. Correll, 389 U.S. 299, 306-307 (1967); Steinhort v. Commissioner, supra. That rule requires that the expenses in question be characterized as personal, non-deductible expenses, regardless of how the taxpayer's employer views them for its own tax purposes. See Adelson v. United States, 342 F. 2d 332, 335 (C. A. 9th, 1965).

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<sup>7/</sup> See T.D. 6291, 1958-1 Cum. Bull. 63.



CONCLUSION

For the reasons stated above and in our opening brief, the decision of the District Court is erroneous and should be reversed.

Respectfully submitted,

MITCHELL ROGOVIN,  
Assistant Attorney General,

LEE A. JACKSON,  
MEYER ROTHWACKS,  
EDWARD LEE ROGERS,  
Attorneys,  
Department of Justice,  
Washington, D. C. 20530.

Of Counsel:

WILLIAM MATTHEW BYRNE, JR.,  
United States Attorney.  
CHARLES H. MAGNUSON  
Assistant Chief, Tax Division  
ROBERT T. JONES,  
Assistant United States Attorney.

SEPTEMBER, 1968.









APPENDIX

Treasury Regulations on Income Tax (1954 Code):

§ 1.162-17 Reporting and substantiation of certain business expenses of employees.

(a) Introductory. The purpose of the regulations in this section is to provide rules for the reporting of information on income tax returns by taxpayers who pay or incur ordinary and necessary business expenses in connection with the performance of services as an employee and to furnish guidance as to the type of records which will be useful in compiling such information and in its substantiation, if required. The rules prescribed in this section do not apply to expenses paid or incurred for incidentals, such as office supplies for the employer or local transportation in connection with an errand. Employees incurring such incidental expenses are not required to provide substantiation for such amounts. The term "ordinary and necessary business expenses" means only those expenses which are ordinary and necessary in the conduct of the taxpayer's business and are directly attributable to such business. The term does not include nondeductible personal, living or family expenses.

(b) Expenses for which the employee is required to account to his employer--(1) Reimbursements equal to expenses. The employee need not report on his tax return (either itemized or in total amount) (expenses for travel, transportation, entertainment, and similar purposes paid or incurred by him solely for the benefit of his employer for which he is required to account and does account to his employer and which are charged directly or indirectly to the employer (for example, through credit cards) or for which the employee is paid through advances, reimbursements, and charges is equal to such expenses. In such a case the taxpayer need only state in his return that the total of amounts charged directly or indirectly to his employer through credit cards or otherwise and received from the employer as advances or reimbursements did not exceed the ordinary and necessary business expenses paid or incurred by the employee.

\*

\*

\*



(4) To "account" to his employer as used in this section means to submit an expense account or other required written statement to the employer showing the business nature and the amount of all the employee's expenses (including those charged directly or indirectly to the employer through credit cards or otherwise) broken down into such broad categories as transportation, meals and lodging while away from home overnight, entertainment expenses, and other business expenses. For this purpose, the Commissioner in his discretion may approve reasonable business practices under which mileage, per diem in lieu of subsistence, and similar allowances providing for ordinary and necessary business expenses in accordance with a fixed scale may be regarded as equivalent to an accounting to the employer.

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(26 C.F.R., Sec. 1.162-17.)



No. 22,483

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FOR THE NINTH CIRCUIT

---

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Appellant

v.

ROY O. DISNEY and EDNA F. DISNEY,

Appellees

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ON APPEAL FROM THE JUDGMENT OF THE UNITED STATES DISTRICT  
COURT FOR THE CENTRAL DISTRICT OF CALIFORNIA

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BRIEF FOR THE APPELLANT

---

MITCHELL ROGOVIN,  
Assistant Attorney General,

LEE A. JACKSON,  
MEYER ROTHWACKS,  
ALBERT J. BEVERIDGE, III,  
Attorneys,  
Department of Justice,  
Washington, D. C. 20530.

Of Counsel:

M. MATTHEW BYRNE, JR.  
United States Attorney.

LOYAL E. KEIR,  
ROBERT T. JONES,  
Assistants to the  
United States Attorney.

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Assistant Attorney General,

LEE A. JACKSON,  
MEYER ROTHWACKS,  
ALBERT J. BEVERIDGE, III,  
Attorneys,  
Department of Justice,  
Washington, D. C. 20530.

Of Counsel:

WM. MATTHEW BYRNE, JR.  
United States Attorney.

LOYAL E. KEIR,  
ROBERT T. JONES,  
Assistants to the  
United States Attorney.

---



# I N D E X

	<u>Page</u>
Opinion below-----	1
Jurisdiction-----	1
Questions presented-----	2
Statutes and Regulations involved-----	2
Statement-----	2
Specification of errors relied upon-----	6
Summary of argument-----	6
Argument:	
I. The amounts which the taxpayer's employer paid to cover the travel expenses of the taxpayer's wife, who accompanied him on his business trips, is includible in the taxpayer's gross income-----	9
II. Mrs. Disney's travel expenses were non-deductible personal living expenses and not deductible ordinary and necessary business expenses of the taxpayer-----	14
Conclusion-----	25
Appendix A-----	26
Appendix B-----	30

## CITATIONS

### Cases:

<u>Allenberg Cotton Co. v. United States</u> , decided December 2, 1960 (7 A.F.T.R. 2d 368)-----	13, 21
<u>Challenge Manufacturing Co. v. Commissioner</u> , 37 T.C. 650-----	18
<u>Commissioner v. Doyle</u> , 231 F. 2d 635-----	16
<u>Commissioner v. Duberstein</u> , 363 U.S. 278-----	12, 20
<u>Commissioner v. Fender Sales, Inc.</u> , 338 F. 2d 924, certiorari denied, 382 U.S. 813-----	12
<u>Commissioner v. Flowers</u> , 326 U.S. 465-----	15
<u>Commissioner v. Glenshaw Glass Co.</u> , 348 U.S. 426-----	11
<u>Commissioner v. LoBue</u> , 351 U.S. 243-----	11
<u>Commissioner v. Smith</u> , 324 U.S. 177, rehearing denied, 324 U.S. 596-----	11
<u>Disney v. United States</u> , 267 F. Supp. 1-----	1
<u>Duncan v. Bookwalter</u> , 216 F. Supp. 301-----	21
<u>Hudson Water Co. v. McCarter</u> , 209 U.S. 349-----	15
<u>James v. United States</u> , 366 U.S. 213-----	11
<u>Jenkins v. Commissioner</u> , decided December 27, 1967 (P-H Memo T.C., par. 67,257)-----	14
<u>Koons v. United States</u> , 315 F. 2d 542-----	12



Cases (continued):

<u>McDonnell v. Commissioner</u> , decided January 31, 1967 (26 T.C.M. 115)-----	13, 21
<u>Moorman v. Commissioner</u> , 26 T.C. 666-----	13, 18
<u>Patterson v. Thomas</u> , 289 F. 2d 108-----	12, 18
<u>Rudolph v. United States</u> , 189 F. Supp. 2, affirmed, 291 F. 2d 841, certiorari dismissed, 370 U.S. 269---	18
<u>Rudolph v. United States</u> , 370 U.S. 269-----	11
<u>Sheldon v. Commissioner</u> , 299 F. 2d 48-----	19
<u>Thomas v. Commissioner</u> , decided March 14, 1939 (P-H Memo B.T.A., par. 39,112)-----	21
<u>United States v. Gypsum Co.</u> , 333 U.S. 364-----	20
<u>Walkup Drayage &amp; Warehouse Co. v. Commissioner</u> , decided June 25, 1945 (P-H Memo T.C., par. 45,241)--	13
<u>Warwick v. United States</u> , 236 F. Supp. 761-----	12, 23

Statutes:

Internal Revenue Code of 1954:

Sec. 61 (26 U.S.C. 1964 ed., Sec. 61)-----	11, 26
Sec. 119 (26 U.S.C. 1964 ed., Sec. 119)-----	12
Sec. 162 (26 U.S.C. 1964 ed., Sec. 162)-----	14, 26
Sec. 262 (26 U.S.C. 1964 ed., Sec. 262)-----	14

Miscellaneous:

H. Rep. No. 1337, 83d Cong., 2d Sess., pp. A18-A19 (3 U.S.C. Cong. & Adm. News (1954) 4017, 4155)-----	11
4A Mertens, Law of Federal Income Taxation, Sec. 25.123-----	15
Rev. Rul. 55-57, 1955-1 Cum. Bull. 315-----	21
Rev. Rul. 56-168, 1956-1 Cum. Bull. 93-----	21
S. Rep. No. 1622, 83d Cong., 2d Sess., pp. 168-169 (3 U.S.C. Cong. & Adm. News (1954) 4621, 4802)-----	11
Treasury Regulations on Income Tax (1954 Code):	
Sec. 1.61-1 (26 C.F.R., Sec. 1.61-1)-----	27
Sec. 1.61-2 (26 C.F.R., Sec. 1.61-2)-----	12, 27
Sec. 1.162-2 (26 C.F.R., Sec. 1.162-2)-----	16-17, 21, 22, 28





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OPINION BELOW

The opinion, and the findings of fact and conclusions of law of the District Court (I-R. 136-151) are reported at 267 F. Supp. 1.

JURISDICTION

This appeal involves federal income tax deficiencies for the years 1962 and 1963 totaling \$3,154.09. The taxes in dispute were paid on or about May 21, 1965 (I-R. 145), and claims for refund were filed on August 3, 1965 (I-R. 5, 7); the claims were rejected on April 12, 1966 (I-R. 146). Within the time provided in Section 6532 of the Internal Revenue Code of 1954, on February 4, 1966,



the taxpayers 1/ brought this action in the District Court for recovery of taxes paid. (I-R. 2-8.) Jurisdiction was conferred on the District Court by 28 U.S.C. Section 1346. The judgment of the District Court was entered on July 7, 1967. (I-R. 152.) Within sixty days thereafter, on September 1, 1967, a notice of appeal was filed. (I-R 154.) Jurisdiction is conferred on this Court by 28 U.S.C., Section 1291.

#### QUESTIONS PRESENTED

1. Whether amounts which the taxpayer's employer paid to cover the foreign travel expenses of the taxpayer's wife--who accompanied him on his business trips but participated only in social activities and performed only incidental services for him--are includible in the taxpayer's gross income.

2. Whether, if includible, the taxpayer may deduct such amounts as ordinary and necessary business expenses.

#### STATUTES AND REGULATIONS INVOLVED

The relevant statutes and Regulations are set out in Appendix A, infra.

#### STATEMENT

The question here is whether amounts paid to the taxpayer as reimbursement for travel expenses of the taxpayer's wife who accompanied her husband on foreign business trips are includible in the

---

1/ Joint returns were filed by the husband and wife appellees. For convenience, this brief will refer only to the husband as taxpayer.



taxpayer's gross income and, if so, whether the taxpayer may deduct such amounts as ordinary and necessary business expenses.

During the taxable years 1962 and 1963 Mr. Roy O. Disney was president, chairman of the board, a director, and a member of the executive committee of Walt Disney Productions, posts which he held at the time of the trial of this case. (II-R. 16-17.) Walt Disney Productions is a well-known, publicly held corporation engaged in producing "family-type" entertainment. It derives its income primarily from theatrical distribution of motion pictures, but its business also includes operating Disneyland Park, character merchandising (e.g., marketing children's clothing, dolls and games modeled after Disney characters), publishing music, books and magazines, and distributing 16-millimeter motion picture films to schools and other nontheatrical markets. The company's operations are world-wide; it has subsidiaries, representatives, and licensees in 58 foreign countries. (I-R. 146.)

In 1962 and 1963 the taxpayer and his wife took three trips outside the country, and one trip within the country. The travel expenses of the taxpayer's wife on all of these trips, with the minor exception noted below, are the subject of this appeal.

On the first trip Mr. and Mrs. Disney traveled in January, 1962, for about 21 days from their residence in California to New York, Paris, and London. (I-R. 147; II-R. 23-24.) The purpose of the trip, concededly a business trip as far as Mr. Disney was concerned, was to gather the Disney sales forces in Paris and London,





bring them up to date on the company's new products, and invite exhibitors to screenings of the company's new products. (II-R. 24.)

There is very little evidence as to what Mrs. Disney did on this trip. Mr. Disney in general testified that he requested his wife to accompany him on his foreign trips because she could be helpful in promoting and publicizing Disney products. (II-R. 26.) He admitted that she had no "precise business function" (II-R. 92), and that she would not attend business meetings but "might stay in the hotel or twiddle her thumbs or walk the streets or go to a picture show or wait until I come home and then go to dinner with me" (II-R. 93). He further testified that she would do a good deal of shopping and would occupy herself with "what are essentially nonbusiness activities" during the times he was away from the hotel. (II-R. 94.)

Mrs. Disney in general testified that her duties were wifely and social. She answered the telephone, attended dinners and other social events with her husband's friends and business associates, took care of the laundry and dry cleaning, accompanied her husband to screenings, exhibitions, receptions, and press conferences, socializing with employees, keeping account of the company money spent, "being generally a helpmate" and giving Mr. Disney her "moral support." She testified that performing a wifely duty "is most of it, I would say." (II-R. 95; III-R. 169-170, 192-193.)

The second trip was a round-the-world trip taken in 1962 by the Disneys and Mr. and Mrs. Vogel, Mrs. Disney's sister and brother-in-law. The trip was concededly a business trip as to Mr. Disney



and a vacation as to the Vogels. The trip included numerous sight-seeing jaunts, including trips to the Hawaiian Outer Islands, tourist attractions in Japan and Thailand, the Taj Mahal in India, the Pyramids in Egypt, and a drive through Scotland and Ireland. Many, but not all, of these trips took place on weekends. (II-R. 112-126.) The Vogels paid their own expenses and were not reimbursed by Disney Productions; they are not involved in this controversy.

The evidence concerning Mrs. Disney's activities on this trip, apart from sight-seeing, is sparse. She attended screenings, cocktail parties, dinners, and apparently was present at a press conference held by Mr. Disney. (II-R. 30-32, 51.) She continued to perform such wifely duties as taking telephone messages, supervising her husband's laundry, and taking care of similar personal matters. When not sight-seeing or shopping, she spent a good deal of time during the day in her hotel and in the evening she accompanied her husband to social gatherings. (III-R. 193-197.)

The third trip in controversy, a 41-day trip to Europe in January of 1963, was undertaken by Mr. Disney to discuss the influence of the Common Market on Disney Productions and to attend a publishers' convention. (II-R. 60-61.) Again, the record is sparse as to Mrs. Disney's activities during this trip. Presumably, they were the same as her activities on previous trips; she took part in her husband's social activities and continued to perform personal errands for her husband.

The final trip involved in the case is a trip which took the Disneys to Colorado, Wisconsin, Buffalo and New York City. Mr.



Disney left New York for a quick trip to London and for the week he was absent Mrs. Disney remained in New York City. (I-R. 62-65.) There is no indication of what Mrs. Disney did while she was with her husband on this final trip, other than that, as to company affairs, she participated "in matters of the social side." (I-R. 63.)

The District Court found that "Mrs. Disney's presence on the round-the-world trip and the two trips to Europe served to enhance the firm's image abroad," that "She assisted her husband in business activities, and her travel was for a bona fide business purpose" and that her "travel expenses were properly excluded from gross income." It found "[a]s to her stay in New York \* \* \* no evidence of a business purpose" and accordingly held that the "reimbursed cost of the week [there] \* \* \* should be treated as additional compensation to Mr. Disney." (I-R. 142.)

#### SPECIFICATION OF ERRORS RELIED UPON

1. The District Court erred in excluding the reimbursed travel expenses of the taxpayer's wife from the taxpayer's gross income.
2. The travel expenses of the taxpayer's wife are not deductible by the taxpayer as his ordinary and necessary business expenses.

#### SUMMARY OF ARGUMENT

This case involves the question of the taxability of travel expenses paid by Mr. Disney's employer for the benefit of Mr. Disney's





wife who accompanied him on his business trips.

The District Court held that since Mrs. Disney's "travel was for a bona fide business purpose," the reimbursed travel expenditures did not constitute gross income to Mr. Disney. This holding was erroneous as a matter of law. Gross income is defined in the Code as "income from whatever source derived" and includes any economic benefit conferred on an employee as compensation whether in the form of cash, or goods and services. Since the company's reimbursements for Mrs. Disney's travel expenditures were not intended to be and did not constitute gifts to Mr. or Mrs. Disney, and since the payments do not fall within any of the other exceptions to inclusion in gross income contained in the Code, amounts reimbursed clearly constitute the taxpayer's gross income.

The basic question is whether the reimbursed travel expenditures, gross income to the taxpayer, would nevertheless be deductible by him as an ordinary and necessary business expense paid or incurred in carrying on his trade or business. Although the District Court did not pass directly on this question, it impliedly held that the amounts involved would be deductible for two reasons: First, "Mrs. Disney's presence on the round-the-world trip and the two trips to Europe served to enhance the firm's image abroad" and second, Mrs. Disney "assisted her husband in business activities and her travel was for a bona fide business purpose."

The District Court erred as a matter of law in relying on the enhancement of the corporate image of the taxpayer's employer as a necessary justification for a deduction of his wife's traveling





expenses. Since the only issue in the case is whether the taxpayer may deduct the travel expenses of his wife as ordinary and necessary business expenses paid or incurred in carrying on his trade or business, it is only the relationship of these expenses to his business which is relevant. This principle is well established by the applicable income tax Regulations and case law. Thus, even if Mr. Disney's employer could deduct the amount of its reimbursement of travel expenses from its gross income, as an ordinary and necessary business expense paid in carrying on its trade or business, on the assumption that her presence on the trips aided and promoted its business, it would not necessarily follow that the taxpayer is entitled to a deduction from his gross income. That result would obtain only if in fact Mrs. Disney assisted her husband in his business activities and rendered other than wifely and personal services.

The District Court's finding that Mrs. Disney "assisted her husband in business activities" and, impliedly, that "her travel was for a bona fide business purpose" insofar as her husband's business was concerned, is clearly erroneous. The record reveals that Mrs. Disney's activities on the trips in question were exclusively wifely and social. She answered the telephone, took care of Mr. Disney's laundry and dry cleaning and accompanied him to screenings, exhibitions, receptions and dinners, socializing with employees and business associates. These are the kind of activities which any wife would engage in and are only "incidental duties" which do not reflect a bona fide business purpose for her travel.



If Mrs. Disney had performed any substantial business-oriented services for her husband, as, for example, acting as his secretary, her travel expenses would be deductible as an ordinary and necessary expense of his business. However, when her activities amount only to the kind of activity which any wife would engage in when she accompanies her husband on a trip, her travel expenses are nothing more than the non-deductible personal expenses of her husband and not his business expenses.

The District Court, in finding that Mrs. Disney's presence on the trips "enhanced the firm's image abroad" erred in failing to address itself clearly and unequivocally to the relevant question whether Mrs. Disney's activities on the trips were so related to the taxpayer's carrying on of his trade or business as to warrant treatment of her travel expenses as his ordinary and necessary business expenditures. Moreover, even when the District Court purported to address itself to a scrutiny of the nature of Mrs. Disney's services, vis-a-vis her husband's business, its findings that Mrs. Disney "assisted her husband in business activities" and that "her travel was for a bona fide business purpose" are clearly erroneous in the light of the overwhelming evidence that all she did was to render wifely and personal services.

#### ARGUMENT

##### I

THE AMOUNTS WHICH THE TAXPAYER'S EMPLOYER PAID TO COVER THE TRAVEL EXPENSES OF THE TAXPAYER'S WIFE, WHO ACCOMPANIED HIM ON HIS BUSINESS TRIPS, IS INCLUDIBLE IN THE TAXPAYER'S GROSS INCOME



The initial question in the case is whether the travel expenses of Mrs. Disney, including the amounts spent for her food and lodging, which were paid by her husband's employer, Disney Productions, when she accompanied her husband on business trips, <sup>2/</sup> constitute the taxpayer's gross income. If the answer is in the affirmative, the question then is whether the taxpayer may deduct the amounts as his ordinary and necessary business expense. If deductible, the taxpayer would have no income tax liability since the deductions would offset the amounts included in his gross income. On the other hand, if those amounts do not constitute ordinary and necessary business expenses, the taxpayer's taxable income would be increased to the extent of Mrs. Disney's reimbursed travel expenditures.

There is no justifiable reason for excluding Mrs. Disney's reimbursed travel expenses from taxpayers' gross income. <sup>3/</sup> Section 61(a) of the Internal Revenue Code (Appendix, infra) defines "gross income" as meaning "all income from whatever source derived, including (but not limited to), \* \* \* (1) Compensation for services, including fees, commissions, and similar items; \* \* \* ." The language of Section 61(a) (and its predecessor provisions in prior revenue laws) "is broad enough to include in taxable income any

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<sup>2/</sup> Disney Productions paid for Mr. and Mrs. Disney's travel expenses either by paying for their transportation and personal living expenses directly or by advancing sums to Mr. Disney for this purpose. Solely for purposes of convenience, we will refer to Mrs. Disney's expenses as reimbursed travel expenses.

<sup>3/</sup> Since Mr. and Mrs. Disney filed joint returns, the amounts which the company paid for Mrs. Disney's travel expenditures are includible in the gross income reportable in those returns if they constitute gross income to either party.





economic or financial benefit conferred on the employee as compensation, whatever the form or mode by which it is effected" (Commissioner v. Smith, 324 U.S. 177, 191, rehearing denied, 324 U.S. 596), and clearly expresses "the intention of Congress to tax all gains except those specifically exempted" (Commissioner v. Glenshaw Glass Co., 348 U.S. 426, 430; Commissioner v. LoBue, 351 U.S. 243; see also, James v. United States, 366 U.S. 213, 219; Rudolph v. United States, 370 U.S. 269, 273).

The Committee Reports on the 1954 Code make it clear that Congress intended to exercise its fullest taxing power in Section 61, stating (H. Rep. No. 1337, 83d Cong., 2d Sess., pp. A18-A19 (3 U.S.C. Cong. & Adm. News (1954) 4017, 4155); S. Rep. No. 1622, 83d Cong., 2d Sess., pp. 168-169 (3 U.S.C. Cong. & Adm. News (1954) 4621, 4802)):

Section 61(a) provides that gross income includes "all income from whatever source derived." This definition is based upon the 16th Amendment and the word "income" is used in its constitutional sense.

Where, as in this case, an employer pays for goods or services for the benefit of his employee or his employee's wife, those expenditures clearly constitute income unless they are gifts. There was no contention in this case, nor could any have been successfully made, that Disney Productions intended the reimbursed travel expenses of Mrs. Disney to be gifts to either Mr. or Mrs. Disney. True, in its findings of fact, the court below stated that the reimbursement of Mrs. Disney's travel expenses "was not intended to be \* \* \* [compensatory] in nature." (I-R. 149.) However, in the absence



of any allegation that the company's payment of Mrs. Disney's travel expenses were gifts and in the absence of any evidence indicating the requisite "disinterested generosity"<sup>4/</sup> on the part of Disney Productions, the court's statement can be reasonably construed only as a legal conclusion that the reimbursed expenses did not constitute gross income and not as a finding that gifts were made. Thus, since the payments made on Mrs. Disney's behalf were not gifts, and do not fall within any of the other exceptions to the definition of gross income contained in the Code (e.g., Section 119), they clearly constitute gross income. The fact that the benefit to the Disneys was conferred in the form of the payment of travel expenses rather than cash of course does not affect this result, such gross income includes the value of goods and services received as well as cash. Section 1.61-2(d), Treasury Regulations on Income Tax (1954 Code) (Appendix A, infra); see, e.g., Koons v. United States, 315 F. 2d 542 (C.A. 9th); Commissioner v. Fender Sales, Inc., 338 F. 2d 924, certiorari denied, 382 U.S. 813. Nor does the fact that the taxpayer, in other circumstances than the present, might have been entitled to deduct the amounts representing reimbursements for his wife's travel expenses as his ordinary and necessary business expenses foreclose the initial includibility of those amounts in gross income. See Warwick v. United States, 236 F. Supp. 761 (E.D. Va.), the case upon which the taxpayer and the court below chiefly relied. See also Patterson v. Thomas, 289 F. 2d 108 (C.A.

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<sup>4/</sup> Commissioner v. Duberstein, 363 U.S. 278.



5th); Moorman v. Commissioner, 26 T.C. 666; cf. Walkup Drayage & Warehouse Co. v. Commissioner, decided June 25, 1945 (P-H Memo T.C., par. 45,241).

We have been able to find only two cases in which reimbursed traveling expenses were excluded from gross income on the ground that the expenditures were ordinary and necessary business expenses. Allenberg Cotton Co. v. United States (D.C. Tenn.), decided December 2, 1960 (7 A.F.T.R. 2d 368), and McDonnell v. Commissioner, decided January 31, 1967 (26 T.C.M. 115). Neither of the opinions cited any authority for the holding, and although the results in both cases can be justified--since the expenses could have been found to be deductible from gross income--the courts' exclusion of the reimbursed traveling expenses from gross income was wrong.

McDonnell, for example, involved a husband and wife who travelled to Hawaii to chaperone a group of salesmen who had won a company sales contest. The travel expenses of both Mr. and Mrs. McDonnell were paid directly by his employer. The Tax Court held that the expenses were excludible from gross income. Since the record before the court showed that the trip was a business trip for both the husband and his wife, "whose duties were substantial and could not have been performed by stag men," the court's conclusion that the travel expenses should not be taxable to the taxpayers was justifiable. Its exclusion of the expenditures from gross income, however, was erroneous.<sup>5/</sup> The holding is in

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<sup>5/</sup> The Commissioner has acquiesced only in the result reached by the court in the case.



conflict with the general principles of income realization we have discussed above. Furthermore, the decision does not represent the Tax Court's position on the matter; in Jenkins v. Commissioner, decided December 27, 1967 (P-H Memo T.C., par. 67-257), the court held that reimbursed travel expenditures constituted gross income even if deductible as ordinary and necessary business expenses.

Thus, the travel expenses of Mrs. Disney which were paid by her husband's employer constituted the taxpayer's gross income and the court's contrary conclusion was wrong as a matter of law.

## II

MRS. DISNEY'S TRAVEL EXPENSES WERE NONDEDUCTIBLE  
PERSONAL LIVING EXPENSES AND NOT DEDUCTIBLE  
ORDINARY AND NECESSARY BUSINESS EXPENSES OF  
THE TAXPAYER

Although Mrs. Disney's travel expenses are includible in the taxpayer's gross income, they are not necessarily taxable. The real question in this case is whether, includible in gross income, they are nevertheless deductible under Section 162 as ordinary and necessary business expenses of the taxpayer, or are nondeductible under Section 262 as personal expenses.

Section 162 (Appendix A, infra) provides:

(a) In General.--There shall be allowed as a deduction all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including--

\* \* \* \* \*

(2) traveling expenses (including the entire amount expended for meals and lodging) while away from home in the pursuit of a trade or business; and

\* \* \* \* \*

(26 U.S.C. 1964 ed., Sec. 162.)





Section 262, on the other hand, provides:

SEC. 262. PERSONAL, LIVING, AND FAMILY EXPENSES.

Except as otherwise expressly provided in this chapter, no deduction shall be allowed for personal, living, or family expenses.

(26 U.S.C. 1964 ed., Sec. 262.)

Unhappily, these two sections are not self-limiting. As

Justice Holmes has reminded us, "all rights tend to declare themselves absolute to their logical extreme. Yet all in fact are

limited by the neighborhood of principles of policy which are

other than those on which the particular right is formed \* \* \*."

Hudson Water Co. v. McCarter, 209 U.S. 349, 355. So it is with

business and personal expenses. Each can be carried to a logical

extreme. For example, everyone must wear clothes to work, and

logically, the cost of clothing could be a business expense. It

is clear, however, that unless an employee is required to wear a

uniform, the cost of ordinary clothing is a nondeductible personal

expense. See 4A Mertens, Law of Federal Income Taxation, Sec.

25.123. Similarly, with travel expenditures, although few can live

within walking distance of their jobs, all commuting expenses are

nondeductible personal expenses even though they are necessarily

incurred to enable a taxpayer to reach his place of business.

Commissioner v. Flowers, 326 U.S. 465. The line of demarcation

between an ordinary and necessary business expense and a personal

expense recognizes that where a large personal component exists in

an expense, it should be regarded as nondeductible even though it



may have some kind of relationship to the expender's business.

The need to arrive at an accomodation between the competing principles of Sections 162 and 262 also exists with respect to the expenses of a taxpayer's wife. Few can doubt that an attractive, intelligent and socially-responsive wife helps a man in his business or profession. But it is difficult to imagine that anyone would argue that the cost of his wife's clothes, hairdos, or social activities normally is deductible as a business expense.

Similarly, in the case of a wife who accompanies her husband on a business trip, few would doubt that she is of some kind of assistance to him. She will take care of his personal affairs (e.g., laundry, valet service), take telephone messages for him, and accompany him to social events--all helpful to him in his business. But these are precisely the functions any wife performs at home, and it is difficult to see why the husband should be permitted to deduct her ordinary living expenses (food and lodging), and travel expenses when they are away from home, as ordinary business expenses when they are clearly not deductible under ordinary circumstances. Such expenses may be "concomitants" to the business operated by some persons "[but] they are not ordinary and necessary business expenses" because they are not economically an integral part of the business. See Commissioner v. Doyle, 231 F. 2d 635 (C.A. 7th).

Accordingly, Section 1.162-2 of the Treasury Regulations (Appendix A, infra) provides:



§1.162-2. Traveling expenses.

\* \* \* \* \*

(c) Where a taxpayer's wife accompanies him on a business trip, expenses attributable to her travel are not deductible unless it can be adequately shown that the wife's presence on the trip has a bona fide business purpose. The wife's performance of some incidental service does not cause her expenses to qualify as deductible business expenses. The same rules apply to any other members of the taxpayer's family who accompany him on such a trip.

\* \* \* \* \*

(26 C.F.R., Sec. 1.162-2.)

The court below held that Mrs. Disney's travel expenses were deductible because it found that "[her] presence on the round the world trip, the two trips to Europe and the domestic trip served to enhance the corporate image abroad, she assisted her husband in business activities, and her travel was for a bona fide business purpose." (I-R. 142, 149.)

The District Court's initial error was its reliance on the enhancement of Walt Disney Production's corporate image as justifying the deduction of Mrs. Disney's traveling expenses. The deductibility of a wife's travel expenses rests exclusively on the relationship of those expenses to her husband's business and not on their relationship to her husband's employer's business. See Section 1.162-2(a), Treasury Regulations on Income Tax (1954 Code). Even if Mrs. Disney's presence enhanced the image of Walt Disney Productions abroad, it would not provide the basis for a deduction of her traveling expenses from gross income, since only the ordinary and necessary business expenses of Mr. Disney are properly





deducted by him from his gross income. Patterson v. Thomas, 289 F. 2d 108 (C.A. 5th); Challenge Manufacturing v. Commissioner, 37 T. C. 650; Moorman v. Commissioner, 26 T.C. 666; Rudolph v. United States, 189 F. Supp. 2 (N.D. Texas), affirmed, 291 F. 2d 841 (C. A. 5th), writ of certiorari dismissed as improvidently granted, 370 U.S. 269. The deductible nature of the reimbursement for Mrs. Disney's traveling expenses must be judged, in this context, from the taxpayer's viewpoint, not from the viewpoint of Walt Disney Productions. As the Fifth Circuit noted in Patterson v. Thomas, supra, pp. 112-113, in holding that amounts paid by the taxpayer's employer to a hotel and a travel agency for accommodations, meals, and a sight-seeing trip for the taxpayer and his wife constituted gross income to the taxpayer and were not deductible by him:

At the outset, it is important to note that the nature of the trip must be determined from the individual taxpayer's point of view, rather than from the point of view of his employer. To illustrate, an employer may find the efficiency of his salesmen is greatly increased if he gives them a two-week, all-expense-paid vacation trip to Florida as a reward for increasing sales. From the employer's point of view, the amounts he expends in providing the trip may be business expenses deductible by him. But to the recipient, that trip is solely for pleasure. Although "connected with" his business, the salesman who goes on the Florida jaunt is receiving income, just as if the prize in the sales contest were a bonus, and the amounts expended in going to Florida and spending the two weeks there would be nondeductible personal expenditures. We note, therefore, that the deductibility of sums as business expenses by an employer is immaterial in determining whether the expenditure of those sums by their recipient is deductible by him as an ordinary or necessary business expense. 6/

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6/ Judge Brown dissented in Thomas on the ground that because the taxpayer and his wife were compelled from the business standpoint to attend the convention sponsored by his employer the expenses of

(Continued)



Thus, in this case, the enhancement of Disney Productions' corporate image might provide a basis for the corporation's deducting the amount of Mrs. Disney's travel expenses, but it does not provide a basis for Mr. Disney's deduction of those amounts, and the court's reliance on this fact was erroneous. See also Sheldon v. Commissioner, 299 F. 2d 48 (C.A. 7th).

The District Court also found that Mrs. Disney "assisted her husband in business activities, and her travel was for a bona fide business purpose." (I-R. 142, 149.) Since the court did not specify how Mrs. Disney "assisted her husband in business activities," it is difficult to know on what basis the court reached its conclusion that "her travel was for a bona fide business purpose." The only activities the court referred to were Mrs. Disney's attendance at "various dinners, social functions, film screenings, and other gatherings of employees, exhibitors, distributors, other

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6/ (Continued)  
both of them were deductible. It is noteworthy that he agreed with the majority that the travel expenses of the taxpayer and his wife paid by his employer on their behalf was income to them and that the deductibility of these amounts should be considered from the standpoint of the taxpayer and not his employer. It is also noteworthy that the business compulsion which Judge Brown relied on in his dissent in Thomas is not present here. The taxpayer in Thomas may have been required to attend the convention with his wife or lose the opportunity for advancement, but Roy Disney, the president and chief executive officer of Disney Productions, was under no comparable corporate compulsion to take his wife along on his foreign trips.

The District Court's statement that Walt Disney Productions "has virtually insisted on the wives' presence" on extended business trips reflects nothing more, in our view, than a company preference that wives accompany their husbands on the husbands' business trips. This is far short of a requirement, in the sense of Judge Brown's dissent in Thomas. Furthermore, it is apparent that to the extent the company's policy could be loosely called a "requirement", it was adopted only as an afterthought for the purposes of this litigation. (III-R. 233, 242-243.)



business associates, the press, and the public." (I-R. 147.) Her presence at these events may have enhanced Walt Disney Productions' image, and the court appeared to consider them relevant only from this standpoint (I-R. 139); there is no indication in the court's opinion or findings of fact and conclusions of law--other than what is reflected in its either irrelevant or conclusory findings (e.g., findings Nos. 13 and 21)--to what extent, if any, these activities assisted her husband on the trips in carrying on his trade or business.

Since it is difficult to fathom the grounds for the court's determination, we must turn to the record to determine whether Mrs. Disney's activities were of such substantial assistance to her husband that they should be deductible by him as ordinary and necessary business expenses. We submit that they were not and the court's conclusion that Mrs. Disney's travel was undertaken principally for a bona fide business purpose of her husband was "clearly erroneous." Commissioner v. Duberstein, 363 U.S. 278; United States v. Gypsum Co., 333 U.S. 364, 395.

The record reveals that Mrs. Disney's activities on the trips were in the nature of wifely duties, such as taking care of their laundry and valet requirements, taking telephone messages when she was in the hotel and keeping track of their personal expenditures. When she was not in the hotel during the day she would be shopping or attending a movie. (I-R. 139.) She also attended screenings and social events, like dinners and cocktail parties,





along with her husband. <sup>7/</sup> Although these activities undoubtedly were of some help to Mr. Disney as concomitants to his business activities, we submit that they are so close to the sort of thing that any wife does for her husband whether they are at home or traveling as to fall within the embrace of personal activities and do not demonstrate a bona fide business purpose for her trip sufficient to justify a deduction of her traveling expenses from her husband's income. See Section 1.162-2(c), Treasury Regulations on Income Tax (1954 Code); Rev. Rul. 55-57, 1955-1 Cum. Bull. 315; Rev. Rul. 56-168, 1956-1 Cum. Bull. 93.

With one exception, in those cases in which a husband has been allowed to deduct his wife's traveling expenses, the evidence revealed that the wife performed substantial services for her husband which assisted him in carrying on his trade or business. For example, in Duncan v. Bookwalter, 216 F. Supp. 301 (W.D. Mo.), Mrs. Duncan handled the details of the trip; in Allenberg Cotton Co. v. United States, supra, Mrs. Allenberg, who was a nurse, took care of her husband, who was diabetic; in McDonnell v. Commissioner, supra, Mrs. McDonnell was assigned the specific duty of chaperoning the wives of company employees, a task which the court found could not have been performed by a man. Finally, in Thomas v. Commissioner, decided March 14, 1939 (P-H Memo B.T.A., par. 39,112), Mrs. Thomas

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<sup>7/</sup> So that the Court need not read the entire transcript, the following transcript references contain the testimony regarding Mrs. Disney's activities when traveling with her husband with the exception of her sightseeing activities: II-R. 28, 30-32, 35-36, 39-40, 42, 48-54, 57, 63-65, 91-100, 101, 110, 148; III-R. 163-170, 172-173, 182-189, 191-194, 196-197, 201, 224.





acted as her husband's secretary and singing coach. Mrs. Disney, however, performed no comparable functions on the trips she took with her husband. She made no arrangements for the trip, performed no secretarial or similar duties, did not take part in any business discussions, and even with regard to her social activities, it does not appear that she made any arrangements or planned any dinners or cocktail parties. To the extent that she did help her husband by taking telephone messages, it amounted only to an "incidental service" which does not make the costs of her trip deductible. Regulations Section 1.162-2(c). In short, Mrs. Disney did only what any wife would do to help her husband in the normal course of events; her activities do not suggest a bona fide business purpose justifying the deduction of her travel expenses.

The District Court appeared impressed with the fact that Mrs. Disney's trip did not amount to a vacation. This conclusion is doubtful at best. She did engage in a large amount of sightseeing on the round-the-world trip with her sister and brother-in-law, who were concededly on vacation, and the testimony at the trial indicates that she engaged in substantial recreational activities on her trips.<sup>8/</sup> Even if it was not a vacation, it does not follow that her presence must have a bona fide business purpose. A wife may accompany her husband, for his personal convenience--to provide companionship, help him with small personal details, and provide a

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<sup>8/</sup> The testimony regarding the Disneys' and Vogels' sightseeing activities can be found at II-R. 112-126, and III-R. 185-190.



congenial atmosphere for him and for his acquaintances when he is away from home. That, we submit, was the reason Mrs. Disney accompanied her husband on his business trips. In order to prevent the deduction of such expenses, which would clearly be personal, the Regulations and cases require some demonstration that the wife is performing substantial services for her husband (as opposed to her husband's employer). Such evidence is lacking in this case, and the District Court was clearly in error in concluding that Mrs. Disney's travel was for a bona fide business purpose vis-a-vis the carrying on of her husband's trade or business. Thus, if the District Court had reached the question whether the taxpayer could deduct the amounts paid for his wife's travel expenses, it would have been required to respond in the negative, since the taxpayer would of course have had the burden of proving that he was entitled to the deduction and had failed in meeting that burden.

The taxpayer and the District Court relied heavily on Warwick v. United States, 236 F. Supp. 761 (E.D. Va.). We submit that that case does not possess significant precedential value for this Court. In Warwick, the District Court permitted the taxpayer to deduct the cost of his wife's travel expenditures when she accompanied him on foreign trips. The court reached its conclusion to a large extent on the very unusual position that the taxpayer occupied in the business world requiring him to establish extremely close connections with a very small number of potential foreign customers. The court found that the presence of his wife was



necessary to establish that relationship. In this case, there is no showing in the record that Mr. Disney occupied a position different from any executive with a product he is trying to sell. That product, which the court described as "family type entertainment," (I-R. 137), may be "rather unique" (II-R. 82), but Mr. Disney's position is not, and, therefore, not comparable to Mr. Warwick's. Furthermore, Mrs. Warwick entertained customers and their wives in her hotel. There is no showing that Mrs. Disney did any comparable entertaining. All that she did was accompany her husband to social events. The evidence overwhelmingly points to the conclusion that Mrs. Disney did not accompany her husband on the trips involved here principally for a bona fide business purpose relating to her husband's business, but that she accompanied him for personal non-business considerations. Accordingly, her travel expenses may not be treated as the ordinary and necessary business expenses of carrying on his trade or business, but must be regarded as non-deductible personal expenses.





CONCLUSION

The judgment of the District Court should be reversed and judgment entered for the United States.

Respectfully submitted,

MITCHELL ROGOVIN,  
Assistant Attorney General,

LEE A. JACKSON,  
MEYER ROTHWACKS,  
ALBERT J. BEVERIDGE, III,  
Attorneys,  
Department of Justice,  
Washington, D. C. 20530.

Of Counsel:

WM. MATTHEW BYRNE, JR.,  
United States Attorney,

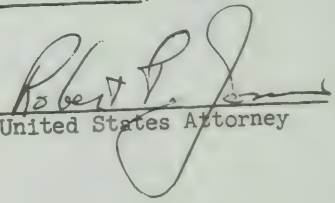
LOYAL E. KEIR,  
ROBERT T. JONES,  
Assistants to the  
United States Attorney.

APRIL, 1968.

CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

Dated: 15<sup>th</sup> day of April, 1968.

  
Robert T. Jones  
Asst. United States Attorney







APPENDIX A

Internal Revenue Code of 1954:

SEC. 61. GROSS INCOME DEFINED.

(a) General Definition.--Except as otherwise provided in this subtitle, gross income means all income from whatever source derived, including (but not limited to) the following items:

- (1) Compensation for services, including fees, commissions, and similar items;
- (2) Gross income derived from business;
- (3) Gains derived from dealings in property;
- (4) Interest;
- (5) Rents;
- (6) Royalties;
- (7) Dividends;
- (8) Alimony and separate maintenance payments;
- (9) Annuities;
- (10) Income from life insurance and endowment contracts;
- (11) Pensions;
- (12) Income from discharge of indebtedness;
- (13) Distributive share of partnership gross income;
- (14) Income in respect of a decedent; and
- (15) Income from an interest in an estate or trust.

\* \* \* \* \*

(26 U.S.C. 1964 ed., Sec. 61.)

SEC. 162. TRADE OR BUSINESS EXPENSES.

(a) In General.--There shall be allowed as a deduction all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including--

\* \* \* \* \*

- (2) [as amended by Sec. 4(b) of the Revenue Act of 1962, P.L. 87-834, 76 Stat. 960] 9/traveling expenses (including amounts expended for meals and lodging other than amounts which are lavish or

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9/ This amendment, applicable to the taxable year 1963, does not materially affect this case.



extravagant under the circumstances) while away from home in the pursuit of a trade or business; \* \* \*

\* \* \* \* \*

(26 U.S.C. 1964 ed., Sec. 162.)

Treasury Regulations on Income Tax (1954 Code):

§ 1.61-1 Gross income.

(a) General definition. Gross income means all income from whatever source derived, unless excluded by law. Gross income includes income realized in any form, whether in money, property, or services. Income may be realized, therefore, in the form of services, meals, accommodations, stock, or other property, as well as in cash. Section 61 lists the more common items of gross income for purposes of illustration. For purposes of further illustration, § 1.61-14 mentions several miscellaneous items of gross income not listed specifically in section 61. Gross income, however, is not limited to the items so enumerated.

\* \* \* \* \*

(26 C.F.R., Sec. 1.61-1.)

§ 1.61-2 Compensation for services, including fees, commissions and similar items.

\* \* \* \* \*

(d) Compensation paid other than in cash--(1) In general. If services are paid for other than in money, the fair market value of the property or services taken in payment must be included in income. If the services were rendered at a stipulated price, such price will be presumed to be the fair market value of the compensation received in the absence of evidence to the contrary. However, for special rules relating to certain options received as compensation, see § 1.61-15 and section 421 and the regulations thereunder.

(2)(i) Property transferred to employee or independent contractor. Except as otherwise provided in section 421 and the regulations thereunder (relating to employee stock options) and § 1.61-15, if property is transferred by an employer to an employee, or if property is transferred to





an independent contractor, as compensation for services for an amount less than its fair market value, then regardless of whether the transfer is in the form of a sale or exchange, the difference between the amount paid for the property and the amount of its fair market value at the time of the transfer is compensation and shall be included in the gross income of the employee or independent contractor. In computing the gain or loss from the subsequent sale of such property, its basis shall be the amount paid for the property increased by the amount of such difference included in gross income.

\* \* \* \* \*

(3) Meals and living quarters. The value of living quarters or meals which an employee receives in addition to his salary constitutes gross income unless they are furnished for the convenience of the employer and meet the conditions specified in section 119 and the regulations thereunder. For the treatment of rental value of parsonages or rental allowance paid to ministers, see section 107 and the regulations thereunder; for the treatment of statutory subsistence allowances received by police, see section 120 and the regulations thereunder.

\* \* \* \* \*

(26 C.F.R., Sec. 1.61-2.)

§ 1.162-2 Traveling expenses.

(a) Traveling expenses include travel fares, meals and lodging, and expenses incident to travel for such as expenses for sample rooms, telephone and telegraph, public stenographers, etc. Only such traveling expenses as are reasonable and necessary in the conduct of the taxpayer's business and directly attributable to it may be deducted. If the trip is undertaken for other than business purposes, the travel fares and expenses incident to travel are personal expenses and the meals and lodging are living expenses. If the trip is solely on business, the reasonable and necessary traveling expenses, including travel fares, meals and lodging, and expenses incident to travel, are business expenses. For the allowance of traveling expenses as deductions in determining adjusted gross income, see section 62 (2)(B) and the regulations thereunder.

(b)(1) If a taxpayer travels to a destination and while at such destination engages in both business and personal activities, traveling expenses to and from such destination are deductible only if the trip is related primarily to the taxpayer's trade or business. If the trip is primarily personal in nature, the traveling



expenses to and from the destination are not deductible even though the taxpayer engages in business activities while at such destination. However, expenses while at the destination which are properly allocable to the taxpayer's trade or business are deductible even though the traveling expenses to and from the destination are not deductible.

(2) Whether a trip is related primarily to the taxpayer's trade or business or is primarily personal in nature depends on the facts and circumstances in each case. The amount of time during the period of the trip which is spent on personal activity compared to the amount of time spent on activities directly relating to the taxpayer's trade or business is an important factor in determining whether the trip is primarily personal. If, for example, a taxpayer spends one week while at a destination on activities which are directly related to his trade or business and subsequently spends an additional five weeks for vacation or other personal activities, the trip will be considered primarily personal in nature in the absence of a clear showing to the contrary.

(c) Where a taxpayer's wife accompanies him on a business trip, expenses attributable to her travel are not deductible unless it can be adequately shown that the wife's presence on the trip has a bona fide business purpose. The wife's performance of some incidental service does not cause her expenses to qualify as deductible business expenses. The same rules apply to any other members of the taxpayer's family who accompany him on such a trip.

\* \* \* \* \*

(26 C.F.R., Sec. 1.162-2.)



APPENDIX B

The Exhibits were admitted, as follows:

Plaintiff's Exhibits:	In Evidence <sup>10/</sup>
1	R. 22
2	R. 37
Defendant's Exhibits:	
A	R. 328
B	R. 337

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<sup>10/</sup> References are to the transcript of the proceedings below which are contained in Volumes II and III of the record on appeal.









## TOPICAL INDEX

	Page
Preliminary Statement .....	1
Statement of Facts .....	2
Questions Presented .....	10
Statutes and Regulations Involved .....	10
Summary of Argument .....	10
Argument .....	13

### I.

Because Mrs. Disney Accompanied Her Husband for a Bona Fide Business Purpose and Pay- ment of Her Travel Expenses Was Not In- tended as Compensation, Such Payments Are Not Includible in Mr. Disney's Gross Income ....	13
--	----

### II.

Assuming, Arguendo, That the Amounts Paid for Mrs. Disney's Travel Expenses Were Includible in Gross Income, They Were Deductible as Business Expenses .....	28
Conclusion .....	34

## TABLE OF AUTHORITIES CITED

Cases	Page
Allenberg Cotton Co., et al. v. United States, 61-1 U.S.T.C. Para. 9131 .....	20, 22
Chianese, Herbert A., 9 T.C.M. 627 .....	15
Cullinan, J. S., 5 B.T.A. 996 .....	14, 15
Earle v. W. J. Jones & Son, 200 F. 2d 846 .....	26
Gotcher v. United States, 259 F. Supp. 340 .....	20, 21, 22, 24, 32, 33
Gray, Robert L., 10 T.C. 590 .....	15
Heidl, Francis X., 23 T.C.M. 27 .....	27
J. S. Cullinan, 5 B.T.A. 996 .....	14, 15
Jenkins, Charles J., 26 T.C.M. 1328 .....	24
Lickert, William R., 23 T.C.M. 376 .....	19, 23
Los Angeles Shipbuilding and Drydock Corp. v. United States, 289 F. 2d 222 .....	26
McDonell, Allen J., 26 T.C.M. 115 .....	20, 22, 23, 24, 27, 33
Patterson v. Thomas, 289 F. 2d 108 .....	24, 29
Rudolph v. United States, 291 F. 2d 841 ....	24, 25, 32
Rudolph v. United States, 370 U.S. 269 .....	25
Sanitary Farms Dairy, 25 T.C. 463 .....	15
Sheldon v. Commissioner, 299 F. 2d ....	34
Siegfried v. United States, 55-2 U.S.T.C. Para. 9531 .....	15
Starr, Homer H., 46 T.C. 743 .....	15, 33
Warwick v. United States, 236 F. Supp. 761 ....	20, 29
.....	32, 33

## Rules and Regulations

	Page
Federal Rules of Civil Procedure, Rule 52(a) ....	25, 26
Revenue Ruling 54-429, 1954-2 C.B. 53 .....	16
Revenue Ruling 55-57, 1955 C.B. 315 .....	34
Revenue Ruling 62-113, 1962-2 C.B. 10 .....	17
Revenue Ruling 63-77, 1963-1 C.B. 77 .....	17
Revenue Ruling 65-158, 1965-1 C.B. 34 .....	17
Revenue Ruling 67-407, I.R.B. 1967-47 .....	17
Treasury Regulations, Sec. 1.162-2(c) .....	34
Treasury Regulations, Sec. 1.162-17 .....	32, 33
Treasury Regulations, Sec. 1.162-17(b)(1) .....	18

## Statutes

United States Code, Title 28, Sec. 1346 .....	1
Internal Revenue Code of 1939, Sec. 22(a) .....	16
Internal Revenue Code of 1954, Sec. 61(a) ....	13, 14, 17
Internal Revenue Code of 1954, Sec. 162(a)(2) .....	13

## Textbooks

Mertens, Law of Federal Income Taxation, Sec. 6.04, Chap. 6, pp. 17-18 .....	14, 32
2 Rabkin & Johnson, Federal Income, Gift and Es- tate Taxation, Sec. 1401(11), pp. 1411-A-1411-B .....	18



No. 22,483

IN THE

**United States Court of Appeals**  
**FOR THE NINTH CIRCUIT**

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UNITED STATES OF AMERICA,

*Appellant,*

*vs.*

ROY O. DISNEY and EDNA F. DISNEY,

*Appellees.*

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On Appeal From the Judgment of the United States  
District Court for the Central District of California.

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**BRIEF FOR APPELLEES.**

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**Preliminary Statement.**

Appellees, Roy O. Disney and Edna F. Disney, commenced the instant action to recover a refund of certain federal income tax deficiencies alleged to have been illegally or erroneously assessed by appellant and overpaid by appellees for the years 1962 and 1963. Jurisdiction was conferred on the District Court by 28 U.S.C. §1346. The District Court filed its Opinion on May 3, 1967 (reported at 267 F. Supp. 1) and its Findings of Fact and Conclusions of Law on July 7, 1967. [I-R. 136, 144, 152.]<sup>1</sup>

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<sup>1</sup>For the sake of convenience and clarity, appellees have adopted the designations to the record used in appellant's brief. "I-R." re-  
(This footnote is continued on the next page)



The appellant, United States of America, appeals from the portion of the District Court's decision and judgment which held appellees were entitled to a refund of the tax deficiencies paid by reason of the inclusion in their taxable income of sums received by appellee, Roy O. Disney, as reimbursement of travel expenses of his wife, Edna F. Disney, when she accompanied him on certain business trips. Other issues involved in the action below pertaining to the deductibility of exercise equipment and payments to Mr. Disney's secretary are not involved in this Appeal.

### Statement of Facts.

During the taxable years 1962 and 1963, appellee, Roy O. Disney, was President, Chairman of the Board, a Director and a member of the Executive Committee of Walt Disney Productions (hereinafter called "WDP") which posts he held at the time of the trial of this case. [II-R. 16-17.]

WDP is a publically held corporation whose stock is listed on the New York Stock Exchange. [I-R. 89.]

WDP's activities are world-wide. Its income is derived from theatrical distribution of motion pictures, both domestically and abroad, with foreign distribution accounting for approximately 35 per cent of the company's gross film earnings. Television programs are licensed around the world. Other segments of the business include character merchandising (*i.e.*, marketing such items as children's clothing, dolls and games

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fers to Volume I of the Transcript of Record consisting of the various pleadings and papers filed with the Clerk of the District Court; "II-R." and "III-R." refer to the two volumes which comprise the Reporter's Transcript of Proceedings.

modeled after Disney characters), publishing, music, and distribution of 16 millimeter motion picture films to schools and other non-theatrical markets. [I-R. 146.]

The company sells magazines in 23 countries, and has contracts with 59 publishers around the world. It has subsidiaries, representatives, and licensees in 58 foreign countries. [I-R. 146.]

During the years in question, WDP had a distributing company in England and in France. In countries where the volume was insufficient to warrant a separate organization, the company distributed through such companies as Metro-Goldwyn-Mayer and J. Arthur Rank. [II-R. 27.] In 1962 the company had recently bought the old RKO Company of Japan and had set up its own distribution and selling organization in Japan. [II-R. 33.]

Mr. Disney and other company executives are required to make numerous business trips within the United States and abroad in the furtherance of the company's far-flung operations. The trips involve not only business meetings, conferences and conventions attended primarily by men, but also screenings, receptions, press conferences, dinners, and numerous social engagements with people in the industry at which women are in attendance. [I-R. 147; II-R. 26, 30-32, 50-51, 91-92.]

There is a rapport and feeling of fellowship among people in show business throughout the world. Reciprocal entertainment and social contact on business trips is expected and is an important part of building and maintaining good will. [II-R. 57-58, 103-105.] Accordingly, many people and firms in the industry, in-

cluding WDP, deem it advisable from a business standpoint that wives accompany their husbands on any protracted business trip. [I-R. 147; II-R. 82-85.]

In addition to helping maintain general good will in the industry, the practice of having wives accompany their husbands on business trips was considered particularly important to WDP from a publicity standpoint because of the special position it occupied in the industry. WDP is regarded as being somewhat unique in the motion picture and entertainment business in that it has specialized in the making of "wholesome entertainment" designed for appeal to the entire family. Many of its pictures are based upon the ideals of Americanism and the home. Hence the company's officers and directors have always been extremely conscious of the image which the company conveyed to the public. Since individuals identified with WDP are frequently in the public eye, its management believes that it serves to enhance the company's image if its representatives travel with their wives. [I-R. 146-147; II-R. 18-19, 82-83; III-R. 234-235, 240-241.]

For these reasons, WDP has for many years paid the expenses of the wives of executives and salesmen who accompany their husbands on extended business trips and has virtually insisted on the wives' presence on trips where it believed such presence would further the company's interests. [I-R. 147; II-R. 18-19, 57-58.]<sup>2</sup>

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<sup>2</sup>Although a formal resolution of the Board of Directors stating the company's position regarding reimbursement of travel expenses for wives was not adopted until 1965, it is clear that such resolution expressed a standing policy which management had recognized and followed for many years. [Ex. I; II-R. 22-23, 57-58; III-R. 233, 241-242.]

In his capacity as chief administrative officer of WDP, Mr. Disney makes regular trips to Europe, primarily in the winter, to meet with representatives of the company and with distributors, licensees, and exhibitors, as well as with persons in finance, the press, governmental officials, and dignitaries of the United States and other countries where the company has business interests. Mr. Disney goes to Europe in the winter because that is the time of year when people to be contacted are generally available. It has always been Mr. Disney's custom, in conformity with corporate policy, to have Mrs. Disney accompany him on such trips whenever possible. [I-R. 146-147; II-R. 22, 57-58, 62.]

On such trips there are newspaper interviews and photographs in which Mrs. Disney appears with Mr. Disney. Management of the company believes Mrs. Disney's presence invites additional publicity for the women's pages and enhances the image of the company as a disseminator of family entertainment. Mrs. Disney also attends various dinners, social functions, film screenings, and other gatherings of employees, exhibitors, distributors, other business associates, the press, and the public. [I-R. 147.] There are many women present at these functions, and Mrs. Disney's presence is helpful to Mr. Disney and WDP. [II-R. 26.] She helps entertain at the various social gatherings, takes telephone messages during the day while Mr. Disney is attending meetings, makes arrangements for different functions, invites guests, and is generally available to assist Mr. Disney in any way she can. [II-R. 91-92, 94, 140; III-R. 168-169.]

The company also has a big staff scattered around the world. [II-R. 105.] Mrs. Disney is very helpful in

maintaining good organization relations. She sends Christmas cards, remembers new babies or weddings of children of members of the Disney organization or important exhibitors or publishers whom she has met on business trips. [II-R. 55.]

In 1962 and 1963 Mr. Disney made three business trips outside the country and one trip in the United States of the type described above. He was accompanied by Mrs. Disney pursuant to company policy and both Mr. and Mrs. Disney's expenses on each trip were paid by WDP. The proper tax treatment of Mrs. Disney's expenses on these four trips is the subject of this litigation. [I-R. 89, 93.]

The first trip was Mr. Disney's usual periodic trip to Europe. He and Mrs. Disney were gone about three weeks in January of 1962 and went to Paris and London. The District Court found this was a business trip. [I-R. 147.] It was for the purpose of gathering the sales forces in London and Paris, and holding screenings of the company's products for exhibitors. [II-R. 24.] Mr. Disney took his wife because she was helpful to him on such trips; there are many women at these showings and there are many women theatre operators. [II-R. 26.]

Later in 1962, Mr. and Mrs. Disney made a three-month world tour on WDP business. The expenses of both Mr. and Mrs. Disney were reimbursed by the company. The Disneys were accompanied by Mrs. Disney's brother-in-law and sister, the Vogels, the latter traveling at their own expense. [I-R. 148.] Although the trip was a vacation for the Vogels, the government concedes that it was a business trip for Mr. Disney.

(Br. pp. 4-5.) The District Court found that any side trips taken by Mr. and Mrs. Disney with the Vogels were merely incidental to the business purpose. They were taken on week-ends and days when persons with whom Mr. Disney wished to transact business were not available. [I-R. 148; II-R. 45.]

On this 1962 world tour, Mrs. Disney helped and supplemented Mr. Disney's work. [II-R. 31.] She attended screening and receptions. [II-R. 30-31.] She was present and interviewed at press conferences. [II-R. 31-32.] At each stop on the tour, she attended good-will visits to various people in the industry, social gatherings which followed business meetings and assisted Mr. Disney in hosting and entertaining exhibitors and people with whom Mr. Disney was transacting business. [II-R. 35-54.]

In 1963 Mr. and Mrs. Disney traveled to New York and Europe between January 4 and February 14 on their regular business trip on behalf of WDP. In addition to their normal activities on such trips, there were conferences dealing with problems of operating and selling in the Common Market. The Disneys also attended a publishers' convention in Italy on this trip. [I-R. 148; II-R. 59-62.]

Finally, in August of 1963 the Disneys made a trip to Colorado, Wisconsin and New York along with Mr. Disney's brother, Walt, and his wife. On this trip, there were several business meetings and Mrs. Disney engaged in the attendant social activities with members of the Disney organization and other people with whom the company had business dealings. [II-R. 62-65.]<sup>3</sup>

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<sup>3</sup>During this trip, Mr. Disney was called upon to make an unexpected trip to London. Mrs. Disney remained in New York  
(This footnote is continued on the next page)



With respect to all of the foregoing trips, WDP made advances or reimbursements to cover the travel expenses of Mr. and Mrs. Disney. Mr. and Mrs. Disney kept careful records of their expenditures and made accountings to the company for each of the trips segregating the business expenditures from those which were purely personal. The Disneys reimbursed the company for all personal expenditures. [I-R. 89-90, 95-106, 148-149; II-R. 65-66, 109.]

Mr. and Mrs. Disney filed timely joint income tax returns for the years 1962 and 1963 and paid the tax shown to be due thereon. They did not report therein any amounts attributable to the travel expenses which WDP paid for Mr. and Mrs. Disney on the trips in question. [I-R. 87-88, 107-121.]

Upon audit of appellees' tax returns for said years, the Commissioner of Internal Revenue determined that all travel expenses incurred by Mrs. Disney were personal in nature and that her presence on the subject trips did not have a bona fide business purposes. Accordingly, the amounts paid by WDP for Mrs. Disney's travel expenses were treated by the Commissioner as additional taxable income to Mr. Disney. [I-R. 90-91.]

The deficiencies attributable to the inclusion of Mrs. Disney's reimbursed travel expenses in taxable income

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for a week until Mr. Disney returned. The District Court found Mrs. Disney's stay in New York during this period had no business purpose and her reimbursed expenses were not excludable from taxable income. Appellees do not dispute this finding and such expenses are not involved in this Appeal.



for the years 1962 and 1963 were paid by appellees on or about May 21, 1965. Interest on said deficiencies was paid July 23, 1965. Appellees filed timely claims for refund with the District Director on August 3, 1965. [I-R. 88.]

By letter dated February 1, 1966, Appellees were notified by the District Director thst their claims for refund disclosed no basis for reducing their income tax liability for the years in question. On February 4, 1966, this action was timely commenced. [I-R. 88-89.]<sup>4</sup>

Following the trial in this case, the District Court's findings included the following:

"21. Mrs. Disney's presence on the round the world trip, the two trips to Europe and the domestic trip served to enhance the corporate image abroad, she assisted her husband in business activities, and her travel was for a bona fide business purpose. The payment of Mrs. Disney's travel expenses by Walt Disney Productions was not intended to be compensatory in nature. Reimbursement of Mrs. Disney's travel expenses was properly excluded from gross income of the taxpayers." [I-R. 149.]

Accordingly, the Court concluded appellees were entitled to refunds for the years 1962 and 1963 based upon the improper inclusion in taxable income of Mrs. Disney's travel expenses paid by WDP. Judgment was entered accordingly. [I-R. 150-153.]

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<sup>4</sup>On April 12, 1966, the Commissioner of Internal Revenue issued a statutory notice of rejection of said claims. [I-R. 89.] However, so far as this action is concerned, such formality was superfluous.

### **Questions Presented.**

Neither the amount of Mrs. Disney's travel expenses nor the amount of tax attributable thereto are in dispute. The sole issue is whether the payment of such expenses by WDP is taxable to Mr. Disney. Thus the specific questions presented are as follows:

1. Does the record sustain the finding of the District Court that Mrs. Disney's presence on the trips in question was for a bona fide business purpose and that the payment of her travel expenses by WDP was not intended to be compensatory in nature?
2. If the answer to the first question is in the affirmative, did the District Court correctly hold that Mrs. Disney's travel expenses paid by WDP were not includible in Mr. Disney's gross income?
3. If such amounts were includible in Mr. Disney's gross income, as appellant contends, were they deductible as ordinary and necessary business expenses?

### **Statutes and Regulations Involved.**

The relevant statutes and regulations are set out in the bodies of this brief and appellant's brief, and in Appendix A to appellant's brief.

### **Summary of Argument.**

Appellees contend that the portion of the judgment appealed from was entirely correct and should be affirmed. Mrs. Disney's reimbursed travel expenses should not have been taxed to appellees and the resulting in-

come tax deficiencies were illegally and erroneously collected from them. Accordingly, appellees are entitled to a refund of the overpaid taxes, with interest, as adjudged by the District Court.

This result is proper because Mrs. Disney's reimbursed travel expenses, incurred on behalf of WDP, were not includible in appellees' gross income under settled principles of law. To be includible, the reimbursement must be in the nature of compensation. This is a question of fact and the District Court expressly found that reimbursement of Mrs. Disney's travel expenses was not compensatory. Such finding is supported by substantial evidence.

But even if the reimbursed expenses were technically includible in income, as appellant contends, the result would be no different. In such event, appellees would certainly be entitled to deduct them as ordinary and necessary business expenses. This follows from the fact that the District Court found Mrs. Disney's presence on the trips had a bona fide business purpose. Again, such finding is supported by substantial evidence.

Appellant's attack on these findings is based upon a fundamental misconception as to the nature of the business purpose which must be met for the reimbursed travel expenses to be non-taxable. Appellant has the erroneous notion it is immaterial that Mrs. Disney accompanied her husband on the trips because WDP's management believed it enhanced the company's public image and helped maintain good will among the company's organization and people with whom they had business dealings. Far from being im-

material, such purpose alone precludes her reimbursed travel expenses from being taxed to appellees regardless of which procedural approach is followed.

The authorities cited, including those relied upon by appellant, make it clear that the critical issue is whether the dominant motive or primary purpose for the trip is business or pleasure. If the primary purpose for the wife, as well as her husband, is to engage in activities which the husband's employer feel will enhance the company's image, the wife's travel costs are not really personal expenses but business expenses incurred on behalf of the employer. Hence, payment of such expenses by the employer is deemed not to be compensation, and most authorities hold the payments are not to be included in income. If they are included, they are held to be deductible.

It is submitted that the findings and record in this case establish conclusively that the trips in question were not vacations to Mrs. Disney—the dominant motive and primary purpose for the trips was business not pleasure. Hence, payment of her travel expenses, incurred on behalf of WDP for legitimate business reasons, was not taxable compensation or income to appellees.

## ARGUMENT.

### I.

**Because Mrs. Disney Accompanied Her Husband for a Bona Fide Business Purpose and Payment of Her Travel Expenses Was Not Intended as Compensation, Such Payments Are Not Includible in Mr. Disney's Gross Income.**

As stated previously, the District Court found that Mrs. Disney's travel with her husband on the subject business trips was for a bona fide business purpose and payment of her expenses by WDP was not intended to be compensatory in nature. [I-R. 149.] Accordingly, the court concluded such payment did not constitute income to Mr. Disney. Appellees contend that the evidence and applicable principles of law fully support that decision. Appellant's arguments to the contrary are patently untenable.

Appellant argues that under the broad general concept of "gross income" embodied in Section 61(a) of the Internal Revenue Code, reimbursement of Mrs. Disney's travel expenses necessarily resulted in the realization of income by Mr. Disney. As appellant sees it, the real issue is whether Mr. Disney is entitled to a *deduction* for such expenses as ordinary and necessary expenses incurred in carrying on his business under Section 162(a)(2) of the Code. Appellant insists that a distinction must be drawn between Mr. Disney's business and that of his employer, WDP; and that although Mr. Disney's own expenses are deductible, he is not entitled to a deduction for his wife's expenses even if his wife's travel served a bona fide business purpose for WDP.

Appellant's analysis is demonstrably faulty. The authorities it cites for inclusion of Mrs. Disney's reimbursed expenses in gross income under Section 61 (a) are plainly distinguishable and not controlling in light of the District Court's findings in the instant case. In each of the cases appellant relies upon, it was expressly found that the payments under scrutiny were a form of *compensation* to the taxpayer for services. By contrast, the lower court here expressly found that the reimbursement of Mrs. Disney's travel expenses was not intended to be compensatory. [Find. 21, I-R. 149.]

Appellant challenges this finding on the ground that there was no allegation or evidence that WDP's payment of the expenses was intended as a "gift." (Br. pp. 11-12.) Such argument misses the point completely. Reimbursement of a taxpayer's expenses need not be classified as a gift to be excluded from gross income where such reimbursement is noncompensatory. The test, under settled principles of law, is whether the reimbursed expenses are *personal* expenses of the taxpayer or expenses which he incurred *on behalf of his employer* in the course of his employment. Whereas reimbursement of a taxpayer's personal expenses results in the receipt of income, reimbursement of expenses incurred primarily for the benefit of his employer does not. *Mertens, Law of Federal Income Taxation*, Section 6.04, Ch. 6, pp. 17-18.

It has long been held that reimbursement of an employee's actual travel expenses incurred while engaged in business on behalf of his employer—especially where he accounts to his employer for such expenses—does not result in income to the employee. *J. S. Cullinan*,



5 B.T.A. 996 (1927) (Acq.); *Herbert A. Chianese*, 9 T.C.M. 627 (1950); *Siegfried v. United States*, 55-2 U.S.T.C. Para. 9531 (N.D. Okla. 1955); *Sanitary Farms Dairy*, 25 T.C. 463 (1955).

In *Sanitary Farms Dairy, Inc.*, *supra*, a dairy corporation sent two officers on an African hunting trip and paid their expenses. The Tax Court found from the evidence that the trip was essentially a business trip, rather than a pleasure trip, and therefore held that the payment of the officers' expenses was deductible by the corporation and *did not constitute income to the individuals*. The following language from the Court's Opinion (at p. 468) is appropriate here:

"No part of that cost is taxable to the Brocks as personal travel and pleasure expense of theirs. They admittedly enjoyed hunting, but enjoyment of one's work does not make that work a mere personal hobby or the cost of a hunting trip income to the hunter. There is evidence that this trip represented hard work on the part of the Brocks, undertaken for the benefit of the dairy, rather than as frolic of their own."

The same rationale has been applied to hold that a partner who is reimbursed for travel expenses incurred on behalf of his partnership does not thereby realize income. *Robert L. Gray*, 10 T.C. 590 (1948).

An analogous situation involves the tax treatment of a taxpayer's moving expenses which are reimbursed by his employer when the move is for the employer's benefit. The recent Tax Court decision in *Homer H. Starr*, 46 T.C. 743 (1966) is illustrative. There a taxpayer received from his employer moving expenses in-



cidental to a transfer to a new post. The court found that such reimbursed costs were incurred primarily for the benefit of the employer and hence were not compensatory. Accordingly, such reimbursed expenses were held not includible in gross income. The court said (at pp. 744-745):

“Though it is no longer open to serious question that the concept of ‘gross income’ embodied in section 61(a) is ‘all inclusive,’ *Commissioner v. Glenshaw Glass Co.*, 348 U.S. 426, 432 (1955), it is a well established principle that a reimbursement of costs incurred by an existing employee primarily for the benefit of the employer is not compensatory in nature and is excludable from the employee’s gross income. *John E. Cavanagh*, 36 T.C. 300 (1961).”

The Court further stated (at p. 745):

“[I]t is obvious that the criteria used to determine whether a reimbursement is compensatory are in no way dependent upon considerations relevant to the issue of the deductibility of the expense by the employee.”

This concept—that reimbursed expenses incurred primarily for the benefit of one’s employer do not constitute income—is certainly recognized by the Commissioner of Internal Revenue in his own rulings with respect to moving expenses. In Rev. Rul. 54-429, 1954-2 C.B. 53, it was held that amounts received by an employee as reimbursement for moving himself and his immediate family, because of a transfer by his employer, were not includible in his gross income under Section 22(a) of the 1939 Internal Revenue Code (which cor-

responds to Section 61(a) of the 1954 Code). In so holding, the ruling states:

“The payment or reimbursement by an employer of the cost of moving an employee, his immediate family, household goods, and personal effects from one place of employment to another permanent place of employment, primarily for the benefit of the employer, is not compensatory in nature. There is no essential difference between a payment of such cost directly by the employer and a payment by the employee and subsequent reimbursement by the employer.”

The Commissioner subsequently ruled to the same effect with respect to Section 61(a) of the 1954 Code in Rev. Rul. 65-158, 1965-1 C.B. 34.

Other examples may be found where the Commissioner of Internal Revenue has recognized in his rulings that amounts paid to a taxpayer to reimburse him for certain travel or living expenses, which he incurred at the request of the one doing the reimbursement, in furtherance of the latter's business, does not result in income to the taxpayer under Section 61(a). See, *e.g.*, Rev. Rul. 62-113, 1962-2 C.B. 10 (reimbursement from church fund for taxpayer-missionary's travel and living expenses while performing services on behalf of and at request of the church); Rev. Rul. 63-77, 1963-1 C.B. 77 (reimbursement of taxpayer's travel expenses received from prospective employer for attending job interview at latter's invitation); Rev. Rul. 67-407, I.R.B. 1967-47 (reimbursement received from hospital for motel bill and other necessary costs of taxpayer and wife where they had to live away from their res-

idence at request of hospital because of research project involving daughter).

In view of the foregoing authorities and rulings, it seems indisputable that reimbursed travel expenses incurred on behalf of a taxpayer's employer cannot properly be regarded as includible in gross income. Such expenses are not the normal personal living expenses of the recipient and are incurred only because the travel is required in pursuance of the employer's business. Hence, they do not compensate the taxpayer or confer upon him any gain; they simply reimburse him for those business expenses of his employer which he has advanced.

Notwithstanding the apparent inconsistency in its position, as compared with other reimbursed expenses, the Treasury Department at one time provided in its regulations that reimbursed travel expenses should be reported by the employee in his gross income and then deducted by him as a business expense. At least one noted tax authority stated that this regulation was of "questionable validity" and "was rarely followed." *Rabkin & Johnson, Federal Income, Gift and Estate Taxation*, Volume 2, Section 1401 (11), pp. 1411A-1411-B. In any event, the regulation was changed prior to the tax years here in question, eliminating the needless procedure of inclusion and deduction if the employee accounted for the expenses to his employer. Regulations, Section 1.162-17(b)(1) reads as follows:

"The employee need not report on his tax return (either itemized or in total amount) expenses for travel, transportation, entertainment, and similar purposes paid or incurred by him solely for the

benefit of his employer for which he is required to account and does account to his employer and which are charged directly or indirectly to the employer (for example, through credit cards) or for which the employee is paid through advances, reimbursements, or otherwise, provided the total amount of such advances, reimbursements and charges is equal to such expenses. In such a case the taxpayer need only state in his return that the total of amounts charged directly or indirectly to his employer through credit cards or otherwise and received from the employer as advances or reimbursements did not exceed the ordinary and necessary business expenses paid or incurred by the employee.”

This regulation was cited by the Tax Court in *William R. Lickert*, 23 T.C.M. 376 (1964), in holding that a taxpayer was not required to report in gross income any amount of reimbursed travel and entertainment expense incurred on behalf of his employer for which he accounted to the employer. The court specifically rejected the government’s argument that the taxpayer was required to prove the expenses were proximately related to *his* business, as distinguished from his employer’s business.

Appellees believe that even the existing, modified regulation is not logically defensible in requiring an accounting to the employer before a non-compensatory reimbursement of travel expenses is not reportable as income. If the reimbursement does not constitute compensation for services, it simply is not income regardless of whether there is any accounting. But such

point is of only academic importance to the instant case because it is not disputed that appellees did account to WDP for the travel expenses in question. *Hence, it was not necessary to report such expenses as income under the express language of the Commissioner's own regulations.*

Nor does it make any difference that the reimbursed travel expenses in question are those of the *wife* of an employee. The same concept of gross income is involved and the wife's reimbursed expenses may not constitute income for the same reasons that the husband's expenses are excludible. If her travel with her husband is not primarily for pleasure, but for a business purpose of her husband's employer, and payment of her expenses is not intended as compensation, such reimbursement is not income any more than is reimbursement of his expenses. *Allen J. McDonell*, 26 T.C.M. 115 (1967); *Gotcher v. United States*, 259 F. Supp. 340 (E.D. Tex. 1966); *Allenberg Cotton Co., et al. v. United States*, 61-1 U.S.T.C. Para. 9131 (WD. Tenn. 1960); *cf. Warwick v. United States*, 236 F. Supp. 761 (E.D. Va. 1964).

In *Gotcher v. United States*, *supra*, the taxpayer was a stockholder, officer and general manager of a corporation engaged in the business of selling Volkswagen automobiles as a franchised dealership. In 1959 taxpayer and his wife took a trip to Germany at the invitation of Volkswagen (a German Corporation) pursuant to a program whereby dealers and their wives were taken on expense paid trips in order to tour that company's factories and the facilities of local dealers. The purpose was to educate the dealers and strengthen the Volkswagen family business ties. The wives were

included based upon Volkswagen's belief that American wives exercised a substantial influence in family investments. Since a Volkswagen dealership required a large investment, the company deemed it desirable and advisable for the wife to acquire first hand as much information as possible about her husband's stock in trade.

While the invitation extended to the dealers did not specifically order or require them to take their wives, the Court concluded that such invitations had the practical effect of being an order or directive. The dealers were aware of the desire of Volkswagen that they take their wives on the tour. Therefore, it would only be natural that a dealer receiving an invitation would feel that in the interest of good future relations he was compelled by sound business judgment to accept on behalf of himself and his wife.

The government contended in *Gotcher*, as it contends in the instant case, that the expenses of the tour paid by Volkswagen and the taxpayer's corporate employer constituted income; and although some offsetting deduction was allowed for the husband as an ordinary and necessary business expense, no such deduction was allowed with respect to the wife's expenses. *However, the court held that neither the expenses of the husband nor his wife properly constituted income.* It was found that the principal and dominant purpose of the tour was business, not pleasure; that the tour was not given to dealers as compensation because of any service rendered or performance on the part of the dealers in the operation of their dealerships; that there was a sound business reason for Volkswagen and plaintiff's corporate employer to pay the expenses



of the trip; and that there was a bona fide business purpose for the wife to accompany her husband on the trip. It is submitted that such findings and the following language from the court's Opinion thoroughly refute appellant's position in the instant case:

"As pointed out by the Supreme Court in Commissioner of Internal Revenue v. Smith, 324 U.S. 177, 181, 65 S. Ct. 591, 593, 89 L. Ed. 830, the definition of gross income in the Internal Revenue Act 'is broad enough to include in taxable income any economic or financial benefit conferred on the employee *as compensation*, whatever the form or mode by which it is effected.' (emphasis supplied) It is clear that in order for an economic or financial benefit to constitute taxable income, it must be in the nature of *compensation*. As the facts above pointed out reflect, the expenses paid trip to Germany was not in any sense of the word compensation to the Plaintiffs. The cases of Patterson v. Thomas (5th Cir. 1961) 289 F.2d 108 and Rudolph v. United States, D.C. 189 F. Supp. 2, affirmed per curiam, 5 Cir., 291 F.2d 841, relied on so heavily by the Government, are not in point. Each of those cases involved an expense paid trip which was principally for pleasure given an employee by the employer because of an outstanding performance on the part of the employee." *Gotcher v. United States, supra*, at 344.<sup>5</sup>

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<sup>5</sup>Unaccountably, appellant stated in its brief that it could only find two cases in which reimbursed travel expenses were excluded from gross income, citing *Allenberg* and *McDonell*. (Br. p. 13.) The *Gotcher* case is squarely in point and was cited in the opinion of the court below in the instant case. Furthermore, appellant offers no explanation as to why the many other cases and rulings cited earlier herein are not equally applicable in principle.



The same result was reached in *Allen J. McDonell, supra*. There a husband and wife were sent on a trip to Hawaii by the husband's employer to accompany winners of the company's incentive sales contest. Part of the objective was to enhance the company's image with the distributors and territorial salesmen who were contest winners. Wives were considered essential participants in the achievement of this objective. The company felt it was impossible for stag salesmen to host a trip for couples. The Tax Court held that the payment of the expenses of the trip by the husband's employer did not constitute income, stating as follows:

"There is not the slightest suggestion that the trip which the petitioners took was conceived of as disguised remuneration to them. On the contrary, DECO had sound business reasons for them to go. We recognize that the presence of an employer business purpose does not thereby preclude a finding of compensation to the employee. *Patterson v. Thomas, supra*. But such business reasons, when coupled with the equally compelling business circumstances involving these petitioners' participation, made the trip no different from any other business trip requiring their services—including Jeanne, whose duties were substantial and could not have been performed by stag men. Cf. *Gotcher v. United States* [66-2 USTC Para. 9634], 259 F. Supp. 340 (E. D. Tex. 1966); *Warwick v. United States* [64-2 USTC Para. 9864], 236 F. Supp. 761 (E. D. Va. 1964).

We hold that, under all the facts and circumstances herein, the expenses of the trip are not includable in the gross income of petitioners.” *Allen J. McDonell, supra* at 116-117.<sup>6</sup>

The only two cases relied upon by appellant which have held that a wife’s reimbursed travel expenses constituted income to her husband are *Patterson v. Thomas*, 289 F. 2d 108 (5th Cir. 1961) and *Rudolph v. United States*, 291 F. 2d 841 (5th Cir. 1961). Neither of those decisions is in conflict with the principles or authorities discussed above. They are easily distinguished from the instant case, just as they were in the *Gotcher* and *McDonell* cases, because of differences in the crucial findings. In both *Patterson* and *Rudolph* the Fifth Circuit Court of Appeals held that expense paid trips to an insurance convention, given by an insurance company to employees and their wives, constituted taxable income to the employees. In each case the travel expenses of *both the husband and wife* were deemed includible in income, with no offsetting deduction, because the dominant or primary purpose of the trip was pleasure rather than business; the trip was a reward or compensation to the employee for his services.<sup>7</sup>

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<sup>6</sup>Appellant mistakenly contends (Br. pp. 13-14) that the *McDonell* case does not represent the position of the Tax Court, citing the case of *Jenkins v. Commissioner*, decided twelve months later. (*Charles J. Jenkins*, 26 T.C.M. 1328 (1967).) A reading of that decision will disclose that it is not in conflict with *McDonell* or the other authorities appellees rely upon. On the contrary, although the court in *Jenkins* stated that a per diem and mileage allowance which had no relation to deductible business travel expenses constituted reportable income, it also expressly recognized that if the allowance is in fact a reimbursement of deductible business travel expenses, it need not be reported.

<sup>7</sup>Circuit Judge John R. Brown dissented in both cases on the ground that the trips should have been held to be for a business purpose.

In the *Rudolph* case, the Supreme Court at first granted *certiorari* but then withdrew it on the ground that the critical issue of “dominant motive” was a finding of fact subject to the “clearly erroneous” rule (Rule 52(a) Federal Rules Civ. Proc.). Accordingly, in a *per curiam* decision, a majority of the Supreme Court did not feel the case was a proper one for review. *Rudolph v. United States*, 370 U.S. 269 (1962).<sup>8</sup>

Thus it is established beyond question from all of the foregoing authorities that if the dominant or primary purpose for an expense paid trip is to engage in business on behalf of the one paying the expenses—*i.e.* it is not a pleasure trip given as a reward for services—payment or reimbursement of the travel expenses does not constitute compensation to the one making the trip. Nor is the result any different when an employee takes his wife with him on such a business trip for his employer, so long as his wife’s presence also meets the “dominant purpose” test. This is a question of fact, *Rudolph v. United States*, 370 U.S. 269 (1962).

In the instant case, it has been shown that the trial court found the dominant purpose test for the trips was met as to Mrs. Disney, as well as her husband. [Finds. 12-21, I-R. 148-149.] These findings may not be disturbed on appeal unless it can be shown that they are “clearly erroneous” within the meaning of

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<sup>8</sup>Justice Harlan wrote a separate opinion in which he stated that he would affirm the Court of Appeals on the merits because the dominant purpose of the trip was pleasure, as found by the District Court and sustained by the evidence. Justices Douglas and Black dissented on the ground that expenses paid by an employer for its employees and wives to attend a business convention should not be regarded as income to the employees. Justices Frankfurter and White did not participate in the case.

Rule 52(a) of the Federal Rules of Civil Procedure. In determining whether findings are clearly erroneous this Court made the following statement in *Los Angeles Shipbuilding and Drydock Corp. v. United States*, 289 F. 2d 222, 226 (9th Cir. 1961) which is appropriate here:

“In considering the government’s appeal, it is to be borne in mind that the taxpayer was the prevailing party in the district court, and we must take the view of the evidence most favorable to it. The taxpayer is entitled to the benefit of all favorable inferences from the facts proved. If, when so viewed, there is substantial evidence to sustain the findings, the judgment may not be reversed by this Court unless the trial court was influenced by erroneous views of the law.”

This Court has also recognized that determinations as to motive in tax cases are especially within the province of the trier of fact. *Earle v. W. J. Jones & Son*, 200 F. 2d 846 (9th Cir. 1952).

Appellees submit that appellant has completely failed to meet its heavy burden of showing that the District Court’s findings are clearly erroneous. On the contrary, there is abundant evidence to support each and every finding.

It cannot be doubted that insofar as WDP was concerned Mrs. Disney went on the trip on its behalf to further the business ends of the company, and not as any kind of reward or compensation to her husband. Mr. Disney and two other directors of WDP testified that it was a corporate policy that wives of executives accompany their husbands on business trips

at the expense of the company because they believed it enhanced the company's image. [II-R. 18-19; III-R. 233-235, 240-242.] An independent expert witness testified that this practice would be especially beneficial to WDP because of the unique family nature of its product. [II-R. 82-85.]

Certainly, corporate directors of a publicly held corporation should be given wide latitude in the exercise of their business judgment as to what will benefit the company. *Cf. Francis X. Heidl*, 23 T.C.M. 27, 28 (1964).

The evidence also amply supports the findings that Mrs. Disney in fact performed the services expected of her on the trip. Although much of it was indeed "social" in nature, as appellant points out, that was precisely the business activity she was supposed to engage in for the company. Her primary function was to act as an emissary of good will by attending press conferences, showings and social engagements. The critical point ignored by appellant is that the socializing was *on behalf of the company*, not Mrs. Disney personally. Hence, the trips were not a vacation. As the court said in *Allen J. McDonell*, *supra*, at 116, "It was realistically a command performance to work."

Moreover, it should not be overlooked that in addition to the social activities Mrs. Disney was required to perform on behalf of WDP, the District Court also found she assisted Mr. Disney in the performance of *his* business activities. [I-R. 149.] She not only helped him entertain and be entertained, she took telephone messages, made arrangements for different functions, invited guests and generally remained available to assist Mr. Disney in any way he thought

she could be helpful. [II-R. 91-92, 94, 140; III-R. 168-169.]

Appellant places great emphasis on the personal activities of Mrs. Disney on these trips, while trying to minimize the business activities. Of course, both Mrs. Disney and her husband had some free time during which they engaged in personal activities. But it is plain that the trial court regarded such personal activities as merely incidental to the business purpose. [I-R. 148.] Mrs. Disney certainly was not required to refrain from all pleasurable or personal activities in order that her presence on the trips be for a business purpose. All that was necessary was that the *dominant* or *primary* purpose be business. The court concluded it was.

In view of the evidence, findings, and authorities discussed above, appellees submit the District Court's decision was entirely correct. Because Mrs. Disney made the trip on behalf of WDP for a bona fide business purpose and the trip was not compensatory, payment of her expenses cannot properly be regarded as income to Mr. Disney.

## II.

**Assuming, Arguendo, That the Amounts Paid for Mrs. Disney's Travel Expenses Were Includible in Gross Income, They Were Deductible as Business Expenses.**

As indicated in the preceding section of this brief, it is appellees' position that the amounts paid by WDP for Mrs. Disney's travel expenses did not constitute gross income and were not required to be reported by appellees in their income tax returns. However, if it is assumed *arguendo* that such payment of expenses



under the circumstances of this case could somehow be regarded as income to Mr. Disney, as the Government contends, there could be no doubt that appellees would be entitled to an offsetting deduction. Such amounts would plainly qualify as ordinary and necessary business expenses of appellees.

The case of *Warwick v. United States*, 236 F. Supp. 761 (E.D. Va. 1964) is squarely in point. There Mr. Warwick was employed in an executive sales capacity by a corporation. He was also a vice-president and director. Duties of officers in the company included European travel. They were encouraged to have close family relationships with European customers which the company believed projected a favorable corporate image. Mr. Warwick took his wife on such trips at the suggestion of the company's president. Her duties were entirely social; she was to assist her husband in establishing friendly intimate relationships with the customers by being congenial and by entertaining customers and being entertained by them with her husband.

After distinguishing *Patterson v. Thomas, supra*, on the ground that the primary purpose of the trip involved there was pleasure, the court held that Mrs. Warwick's reimbursed expenses, though includible in income, were deductible as ordinary and necessary business expenses. The court's cogent reasoning is set forth in the following excerpt from its opinion:

"The Treasury Regulations on Income tax, 1954 Code, Section 1.162-2 provide in part:

'Only such traveling expenses as are reasonable and necessary in the conduct of the taxpayer's business and directly attributable to it may be deducted.'



Subparagraph (c) 'Where a taxpayer's wife accompanies him on a business trip, expenses attributable to her travel are not deductible unless it can be adequately shown that the wife's presence on the trip has a bona fide business purpose. The wife's performance of some incidental service does not cause her expenses to qualify as deductible business expenses.'

In Revenue Rulings, 55-57, 1955, Cumulative Bulletin 315, it is reported:

'Advice has been requested relative to the deductibility of amounts expended by a taxpayer for the travel expenses of his wife who accompanies him on a business trip or to a business convention.'

Thereafter, the text cites certain portions of the Code, and goes on to say:

'Where a wife accompanies her husband on a business trip or to a business convention the Code and Regulations as cited above require a showing that her presence serves a bona fide business purpose, i.e., is not merely for her pleasure or vacation, but is directly attributable to the husband's business and necessary to the conduct thereof.'

We all know that the word, 'necessary,' as used in these codes, regulations, bulletins, and cases, does not mean absolutely necessary. It is a relative word. Sometimes it has been defined as appropriate, sometimes as substantially necessary, or qualified in some other way.

The Court concludes that the purpose of Mrs. Warwick's trips was not merely for her pleasure or vacation. They were neither pleasure nor vacation trips in any sense of the words.

Her husband's trips, of course, were business trips.

The amount expended on her behalf was reasonable.

*The only reason she went was because of her husband's business. Her trip was directly attributable to her husband's business, and it was appropriate to the conduct of his business. It assisted him in his business and assisted in the production of his income.*

The Court has reached this conclusion in part from the very unusual position that Mr. Warwick occupies in the business world, and the unusual nature of Universal's business.

Her trips differed from those of a wife who accompanies an ordinary salesman while he calls on the trade, or of a wife who accompanies her husband to Europe on only a single trip.

It follows that the deduction in 1958 was proper.

The parties have stipulated that the issue pertaining to the 1959 taxes is whether Mr. and Mrs. Warwick 'properly excluded from their 1959 income Mrs. Warwick's travel expenses of \$2,003.82 and are therefore entitled to a refund of \$1,480.14 plus interest from April 15, 1963.' The evidence discloses that Universal reimbursed Mr. Warwick for the 1959 expenses. Instead of including this in his gross income and then deducting the amount

of the expenses, he simply excluded the amount of the reimbursement and made no deduction.

The Court is of the opinion that the amount of the reimbursement should have been included in gross income and Mrs. Warwick's expenses are properly allowable as a deduction." (Emphasis added.)

*Warwick v. United States, supra*, at 767.

Appellees disagree with this decision only to the extent it held the reimbursed expenses should first be included in income and then deducted. On that question, appellees believe the cases cited in the preceding section of this brief are controlling. The court in *Warwick* did not discuss its reasons for believing the income should be included and did not cite the other cases. Furthermore, the court did not cite Regulation Section 1.162-17 or mention the fact that such Regulation expressly states that reimbursed expenses for the benefit of an employer need not be reported if the employee accounts for them to his employer.

But appellees believe the *Warwick* case is otherwise well-reasoned and the result is certainly consistent with the other authorities which appellees rely upon. Indeed, the court in *Gotcher v. United States supra*, states, as an alternative ground for its decision, that if the reimbursed expenses were includible in the taxpayer's income, they were deductible. A similar alternative ground was stated in the dissenting opinion of Justices Douglas and Black in *Rudolph v. United States, supra*. See also *Mertens, Law of Federal Income Taxation*, Section 6.04, Ch. 6, pp. 17-18.

The real significance of the *Warwick* case is that it again illustrates the Government's misconception and

misconstruction of the "business purpose" that is required for reimbursed travel expenses of the wife to be non-taxable. Appellant erroneously contends in its brief that Mrs. Disney's travel is not an ordinary and necessary business expense of Mr. Disney unless she actually performed business services for her husband; and that her enhancement of WDP's image does not qualify. (Br. pp. 17-19.) Apparently, appellant would limit the type of services which qualify to secretarial duties or actual participation in business negotiations or discussions. *Warwick*, along with *McDonell* and *Gotcher*, discussed previously, conclusively refute any such notion.<sup>9</sup>

Nor is there anything in the regulations or other authorities cited by appellant which support the narrow distinction it urges here. Obviously, one of Mr. Disney's duties on the trips for the company is to maintain good will and promote WDP's corporate image as a disseminator of wholesome family entertainment. His travel and entertainment on behalf of the company included attending shows, press conferences and social engagements with business contacts. His own reimbursed expenses incurred for that purpose would unquestionably be business expenses if they were required to be included in his income. Reg. Section 1.162-17. The District Court found that Mrs. Disney's presence on the trips assisted him in the performance of those duties. Hence, the court correctly

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<sup>9</sup>Appellees have already shown in the preceding section of this brief that the courts have rejected the government's argument that the taxpayer must prove the reimbursed expenses were proximately related to his personal business, as distinguished from his employer's business in the pursuance of which the expenses were incurred. See, *e.g.*, *William R. Lickert*, 23 T.C.M. 376, 380 (1964); *Homer H. Starr*, 46 T.C.M. 743, 745 (1966).

found that her presence on the trips served a bona fide business purpose within the meaning of Regulation, Section 1.162-2(c) and Rev. Rule 55-57, 1955 C.B. 315. It follows that her reimbursed travel expenses are just as much a business expense to Mr. Disney as are his own if they are required to be included in income.

The case of *Sheldon v. Commissioner*, 299 F. 2d (7th Cir. 1962), relied upon by appellant on this point, is patently inapposite. In the first place, that case did not involve the treatment of reimbursed travel expenses paid by an employer. Rather, the taxpayer-husband was seeking to deduct his wife's travel expenses which he paid out of his own pocket. Obviously, to obtain the deduction, he had to show some connection with his own business. The court said this was a question of fact and found that the wife's activities on the trip were primarily social with insufficient evidence of any business connection. Unlike the instant case, it was not shown that the wife's travel and social activities had a bona fide business purpose—to the husband or his employer.

### Conclusion.

For the foregoing reasons, appellant's position on appeal must be rejected and the District Court's decision should be affirmed. The findings of a bona fide business purpose for Mrs. Disney's presence on the trips, and that payment of her expenses by WDP was not compensation, precluded the inclusion of such payments in appellees income under the better reasoned authorities and the Commissioner's own regulations.

But even if appellant were correct in its first argument, that Mrs. Disney's reimbursed travel expenses should have been included in appellees gross income, they were deductible and appellees would still be entitled to the refund provided for in the District Court's Judgment.

Respectfully submitted,

HILL, FARRER & BURRILL,  
CARL A. STUTSMAN, JR.,  
ALBERT R. BURFORD, JR.,  
JACK R. WHITE,  
*Attorneys for Appellees.*





### **Certificate.**

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that in my opinion, the foregoing brief is in full compliance with those rules.

JACK R. WHITE



IN THE  
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vs.

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State Penitentiary, STATE OF IDAHO,

Appellee

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HONORABLE RAY MCNICHOLS, UNITED STATES  
DISTRICT JUDGE

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TY ATTORNEY GENERAL  
TE OF IDAHO

RICHARD R. BLACK  
ATTORNEY AT LAW  
POCATELLO, IDAHO

ALLYN DINGEL, JR.  
SIAL ASSISTANT ATTORNEY GENERAL  
TE OF IDAHO  
Bank of Idaho Building  
e, Idaho

ATTORNEYS FOR APPELLANT

ORNEYS FOR APPELLEE

FILED

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## SUBJECT INDEX

<u>SUBJECT</u>	<u>PAGE</u>
Statement of Case.....	1
Argument:	
First Specification of Error.....	3
Second Specification of Error.....	11
Third Specification of Error.....	12
Conclusion.....	14

## INDEX OF CASES

<u>Cases Cited</u>	<u>PAGE</u>
Lewis v. State of Texas, 386 U.S. 707, 87 S.Ct. 1338, 18 L.Ed.2d 423 (1967) .....	6,7,11
Wis v. State of North Carolina, 384 U.S. 737, 86 S.Ct. 1761, 16 L.Ed.2d 895 (1966).....	5,7,11
Robledo v. State of Illinois, 378 U.S. 478, 84 S.Ct. 1758, 12 L.Ed.2d 977 (1964) .....	3,4,5
Greenwald v. Wisconsin, 88 S.Ct. 1152 (1968).....	11
Johnson v. Commonwealth of Massachusetts, 88 S.Ct. 1155 (1968).....	6
Johnson v. State of New Jersey, 384 U.S. 719, 86 S.Ct. 1772, 16 L.Ed.2d 882 (1966).....	3
Johnson v. Walker, 199 F.Supp. 86 (E.D.La. 1961) .....	12
Granda v. State of Arizona, 384 U.S. 436, 86 S.Ct. 1602, 16 L.Ed.2d 694 (1966) .....	3,5
State v. Larsen, 91 Idaho 42, 415 P.2d 685 (1966).....	1,4,7,9,10,11
United States v. Barmiller, 199 F. Supp 115 (E.D. Pa. 1961).....	12

## STATUTORY PROVISIONS

USC §2244 .....	4
USC §2254 .....	13
Idaho Code Sections 19-4901 through 4911.....	13
Idaho 1967 Sess. Laws, Chap. 25, pgs. 42-46.....	13





## APPELLEE'S STATEMENT OF CASE

In Appellant's statement of the case many facts are enumerated which are not pertinent to the instant appeal. He refers especially to the role one Richard Burt played at the trial level. The sufficiency of evidence to convict Larsen in the state trial court is not before this Court. Appellee further agrees with Appellant's statement that the principal evidence on which he was convicted was Richard Burt's testimony and the statements given to the law enforcement officers on his return trip from Las Vegas, Nevada to Pocatello, Idaho. The purpose of this appeal should not be a federal appellate review of state court evidentiary matters lacking federal constitutional implications. However, Appellee should note in light of Appellant's opening remarks that other principal evidence against Larsen was adduced at the state trial. As an example, one Michael Schell, a school acquaintance of Appellant, testified that Larsen told him that, "I have a perfect murder planned," and that Larsen further stated that he would pick up a girl after a local radio station dance and take her out and kill her. (Tr. 441) Larsen admitted that the last evening he saw the deceased alive was the same evening he went to the KSNM dance to see if there were any girls there he knew. (Tr. 361) He left the dance and drove the street and picked up the deceased. (Tr. 363, 700-701) The opinion of the Supreme Court of Idaho and federal District Judge Ray McNichols' first Memorandum Order contains a concise statement of the facts. (Tr. 65-78; 820-824; State v. Larsen Idaho 42, 415 P.2d 685) Appellee in the argument in the



stant brief makes further reference to salient facts.

Appellee should draw to the Court's attention that this appeal is concerned with Appellant's second Petition for Writ of Habeas Corpus. Appellant's first petition was filed December 7, 1966. The action was dismissed by Judge McNichols on April 24, 1967, after considering the entire state court record after the parties stipulated that a hearing and oral argument were not required. (Tr. 6, 820-824) Appellant never instituted a timely appeal from that order. (Tr. 1317-1322)



## ARGUMENT

### I

#### (a)

Appellant in Specification of Error No. 1(b) claims federal trial court erred in refusing to consider any retroactive application of the rules announced in Miranda v. State of Arizona, 384 U.S. 436, 86 S.Ct. 1602, 16 L.Ed. 2d 694 (1966). General District Judge Ray McNichols has in effect twice adjudicated this contention. Appellant's first petition for Writ of Habeas Corpus contained this request. (Tr. 6-9) Upon referring to conviction of first degree murder and subsequent sentencing on September 18, 1964, Judge McNichols held that in regard to the first petition any prospective application of the Miranda decision the Appellant was clearly foreclosed by Johnson v. State of New Jersey, 384 U.S. 719, 86 S.Ct. 1772, 16 L.Ed. 882 (1966). (822-824) Judge McNichols later noted that Appellant raised the same issue in his second petition for Writ of Habeas Corpus. After examining the proposed additional authorities he again concluded that Miranda offers no solace to Larsen. Appellant's case preceded Miranda and thus Johnson effectively blocked any reliance on Miranda. (Tr. 1317-1319) Appellant's success in the instant appeal is barred by the same rule.

#### (b)

Appellant in Specification of Error No. 1(c) contends that the federal trial court erred in disproving the admission of incriminating statements of Appellant in light of Escobedo v. State of Illinois, 378 U.S. 478, 84 S.Ct. 1758, 12 L.Ed.2d 977 (1964). Appellant's first petition for Writ of Habeas Corpus





before Judge McNichols urged enforcement of his Escobedo rights under the Fifth Amendment to the Constitution of the United States. (Tr. 6-9) Judge McNichols having before him the entire state court record rejected the contention of any violation. (Tr. 820-24) The Idaho Supreme Court discussed at length the Escobedo argument. (Tr. 68-71) State v. Larsen, 91 Idaho 42,44-46; 415 P.2d 685, 687-89. Larsen again plead in his second petition for Writ of Habeas Corpus his lack of protection of the Fifth Amendment. (Tr. 827) Judge McNichols in his order denying the petition found no reason to reverse his prior decision. (Tr. 1317-22)

(c)

Appellant suffers grave appellate problems in that he never timely appealed his denial of his first petition, but sought rather to institute an identical new proceeding.

Judge McNichols stated:

"For reasons best known to the petitioner and his counsel, no timely appeal was taken from the denial of relief in the prior proceeding... Petitioner's complaint now, after appeal time has passed, and where no timely motion for amendment or other relief was sought, that the Order was not sufficiently specific is without merit. Suffice to say the Court specifically denied relief and the petitioner had his remedies." (Tr. 1317-1319)

Judge McNichols also turned to the judicial discretion vested in him by virtue of 28 U.S.C. §2244 to conclude that he is not required to entertain successive applications by state-held



prisoners seeking Habeas Corpus relief. Thus, as to the issues of Escobedo and Miranda he found no good cause requiring their consideration. (Tr. 1319-20) Appellee finds no argument advanced in Appellant's opening brief that supports any theory suggesting an abuse of discretion by Judge McNichols.

(d)

Appellant devotes the major portion of his brief to the contention that certain statements made to the Law Enforcement Officers H. E. Parker and Robert Aikens were not voluntary and were the product of his free and rational choice. Admittedly, Gris v. State of North Carolina 384 U.S. 737, 86 S.Ct. 1761, 13 L.Ed.2d 895 (1966) holds that the absence of rights enumerated in Miranda are factors in considering the voluntariness of statements later made. Federal District Judge Ray McNichols remarked that the Miranda violation in the instant case was the interrogation of Larsen by Officers Parker and Aikens after Larsen had indicated he wished to speak to his attorney before making any statement. (Tr. 822-23)

Appellant states that the trial judge made no ruling upon the issue of the voluntariness of the statements. Judge McNichols stated that he had examined petitioner's proposed additional authorities including the claim that the Miranda holding had been enlarged so as to include him. Judge McNichols concluded that his prior holding was not in error. (Tr. 1318-19)

The federal appellate courts are empowered to approach the question:

"We approach this question from an independent examination of the whole record, our established



practice in these cases." Clewis v. State of Texas,  
386 U.S. 706, 708, 87 S.Ct. 1138, 1139 (1967).

In Johnson v. Commonwealth of Massachusetts, 88 S.Ct. 1155  
168) the Supreme Court of the United States dismissed the Writ of  
etiorari as improvidently granted. Mr. Justice Marshall in  
issenting in concert with the Chief Justice and Mr. Justice Fortas,  
tted:

"Yet, once he concluded there had been no physical  
abuse, the trial judge did not go on to consider the  
voluntariness of petitioner's confession in light of  
'the totality of these circumstances,' Greenwald v.  
Wisconsin, 88 S.Ct., at 1154, under which it was  
obtained. While the Supreme Judicial Court stated that  
petitioner should have raised at trial the theory of  
involuntariness on which he now relies, its opinion  
reveals that it then went on to pass on that evidence  
itself, in the course of ruling on petitioner's request  
for a new trial, and found the confession voluntary.  
Accordingly, I do not feel that it is necessary for  
us to decide whether the trial judge was under a  
duty sua sponte to consider a theory of involuntariness  
not initially raised by petitioner, since it appears  
that such facts were considered and passed on in the  
course of appellate review in the state court."

88 S.Ct. at page 1157.

Larsen, in his appeal to the Supreme Court of Idaho,  
red strenuously that his statements were the result of coercion  
duress and thus involuntary. At three stages in his opening





lef that specific point was explored. (Tr. 699, 729, 746) The  
Supreme Court of Idaho squarely met the issue of voluntariness  
of Larsen's answers to the officers' inquiries:

"At the outset it is to be noted that Larsen's  
responses to the Sheriff's questions were entirely  
voluntary and in no way attributable to coercion, or  
the physical conditions attending the trip. At the  
trial, Larsen, on cross examination, repeatedly stated  
this to be the fact. Some of his testimony in this  
regard is set forth in the footnote." (Emphasis added)  
(Tr. 67; State v. Larsen, 91 Idaho 42, 44, 415 P.2d 685  
687)

The Supreme Court of the United States decisions of Davis  
and Clewis both refer to the "swearing contest" between the  
accused and law enforcement officers:

"As is almost invariably so in cases involving  
confessions obtained through unobserved police  
interrogation, there is a conflict in the testimony  
as to the events surrounding the interrogations."  
Clewis v. State of Texas, 386 U.S. 706, 708; 87 S.Ct.  
1338, 1339 (1967)

However, the instant case is devoid of any conflict in  
testimony concerning circumstances surrounding the statements that  
were given. Larsen fully admitted at the state trial that any  
statement elucidated from him was devoid of duress or coercion.  
The Idaho Court quoted in detail Larsen's remarks concerning his  
voluntariness claim:





"Q And we don't have any element of coercion or that you made the answer that you say you made because you were uncomfortable and handcuffed or anything like that, do we?

"A No, sir. We don't.

"Q\* \* \* Now your answer was not--your answer to their question as you have related it was not due to any discomfort or anything of that nature at this time, was it?

"A I don't believe any of my answers were due to discomfort especially \* \* \*

\* \* \* \* \*

"Q All right. At this point now we don't have involved here that your answer to this question was prompted by the fact you were manacled and may have been cold outside or anything of that nature, do we, or cold inside?

"A No, sir. \* \* \*

\* \* \* \* \*

"Q And this doesn't have anything to do, does it, with whether or not you had had a cup of coffee, hadn't had a cup of coffee, whether you had been to the restroom or hadn't been to the restroom, does it?

"A I can't say directly that it did; no, sir.

\* \* \* \* \*

"Q Now again your reply to that question was not based on any fact that you were handcuffed or that you--the method in which you were transported to Pocatello, was it?



"A No, sir. Not due to the method I was being transported; no, sir.

"Q In other words, actually that didn't have any bearing at all in your reply to these questions, did it?

"A No, sir. The transportation itself didn't.

\* \* \* \* \*

"Q And there isn't any element of duress or anything of that involved in the matter at all, is there?

"A No. I don't believe so."

(Tr. 67-68; State v. Larsen 91 Idaho 44, 415 P.2d 685, 687)

Actually, the only conflict in testimony concerned both Larsen's and the Officers' recollection of the context and wording of the statements rather than the involuntariness claim. (Tr. 384-85)

"Q. So then the only thing we have involved here, Mr. Larsen, is that there is a difference in testimony between what Sheriff Parker says and what Deputy Sheriff Aikens says as to your reply to their questions, and what you say you said, isn't that right?

"A. Yes, sir. I believe so.

"Q. And there isn't any element of duress or anything of that involved in this matter at all, is there?

"A. No. I don't believe so." (Tr. 385)

Many of the facts surrounding this claim are set forth accurately by the Idaho Supreme Court in their opinion and by Federal Judge McNichols in his Memorandum Order. (Tr. 66-67 and



81-22, State v. Larsen, 91 Idaho 42, 43, 44; 415 P.2d 685, 66-87)

The trip from Las Vegas, Nevada, to Pocatello, Idaho, consumed approximately nine and one-half hours. The officers and Larsen left Las Vegas close to noon and arrived in Pocatello at 830 p.m. that same evening. (Tr. 355-356)

Larsen had breakfast before he left. (Tr. 628) When he arrived in Pocatello he was given two hamburgers and a coke. (Tr. 628, 1274)

Larsen testified that on certain occasions en route back to Pocatello he received refreshments, including a doughnut. On one occasion he was given coffee and a doughnut. (Tr. 344-45) Also he drank a bottle of pop, and was able to smoke and did so in the back seat. (Tr. 345)

Larsen further agreed that the officers told him that if he ever wanted to stop and eat they would accede to his request. (Tr. 347) Sheriff Parker stated that they asked him at least six times if he wanted to stop and eat, to which he replied that he was not hungry. (Tr. 1273) Larsen stated that on one occasion he slept in the back seat for approximately 15 or 20 minutes. (Tr. 357) Sheriff Parker believes that there were periods on the return trip when Larsen dozed off. (Tr. 1270)

Appellant's brief claims that he was chained to the back seat throughout the return trip. However, Larsen testified that they put hand cuffs on him and ran a waist chain around him. He was not chained to the back seat and was able to move around. (Tr. 342-43; 1276) The security devices were adjusted so that





could smoke and drink. (Tr. 345) Sheriff Parker stated that the security devices were acceptable standards for transporting prisoners. (Tr. 1276)

On one occasion Larsen admitted the cuffs were removed while he consumed his coffee and doughnut. (Tr. 343-44) While admittedly the weather became uncomfortable his coat did offer some comfort. (Tr. 346) He was permitted to leave the vehicle with the accompaniment of Officer Aikens in order to retire to the bathroom to relieve himself. (Tr. 356) On arriving in Pocatello at 8:30 that evening, he refused to make any telephone calls. (Tr. 1252-53)

Appellant now concludes that his statements to the officers on his return trip were not the product of his free and rational choice and thus, involuntary. Your Appellee cannot fathom Larsen's supposition that the instant facts even approach the totality of circumstances" or the prohibitive practices found in Davis, Clewis and Greenwald v. Wisconsin, 88 S.Ct. 1152 (1968)

## II

Appellant's second Specification of Error concerns the exclusion of certain proof offered by him at his state jury trial. The concern is specifically that the state trial court refused the offer of proof sought to prove that a third party had made extrajudicial statements constituting an admission that a third party had admitted the commission of the same murder. The opinion of the Idaho Supreme Court states at length appellant's argument and the facts surrounding the offer of proof. (Tr. 71-77; State v. Larsen 91 Idaho 42, 46-49, 415 P.2d 685, 689-92) The Idaho Supreme



court adhered to the recognized, though disputed evidence rule, rejecting out-of-court third-party confessions without the introduction of other substantial evidence which tends to prove clearly that the declarant is in fact the person guilty of the crime for which the accused stands charged.

Appellant then injects the argument that his constitutional right of due process was violated because he was not allowed to present his theory on the case.

Judge McNichols refuting that suggestion stated:

"...It is clear from the record before us that no deprivation of any constitutional right is presented by the allegation of Paragraph VII of the petition and as to that paragraph the petition for a Writ of Habeas Corpus should be denied as being without merit as clearly demonstrated on the face of the record."

(Tr. 1320)

The Federal Habeas Corpus Act is geared to the appearance of federal constitutional defects. Certainly the federal court is not the panacea of all disagreements with state court evidence rulings. See, for example, United States v. Banmiller, 199 F. Supp. 115 (E.D. Pa. 1961) and Johnson v. Walker, 199 F. Supp. 86 (C.D. La. 1961).

### III

Appellant's third Specification of Error is directed towards his belief that he did not receive a fair trial as guaranteed by the Sixth and Fourteenth Amendments to the Constitution of the United States. He contents that widespread prejudicial and inflammatory publicity, generated by the news media, swept away



right he may have possessed to obtain a fair trial in Bannock County, Idaho.

Larsen never raised this issue in the Idaho state courts nor was it absent from his first Petition for Writ of Habeas Corpus in the federal court. (Tr. 1-9 and 1320-22) Federal District Judge Ray McNichols refused to entertain consideration of this allegation because Larsen had not, contra to his assertion, exhausted his state court remedies. Judge McNichols in his order, denying this issue without prejudice as to renewal in his court, discussed accurately that the State of Idaho had adopted a post-conviction statute patterned after the federal practice as developed under 28 U.S.C. §2254. (Tr. 1320-22) Appellant's response to Judge McNichols' holding is that he had exhausted all the state remedies that were available to him when he filed his first Petition in the federal courts on December 7, 1965. However, as expressed above, this new and cognizable claim of deprivation of a constitutionally guaranteed protection never appeared in his first petition nor only came to the attention of the federal judiciary in his second petition of August 9, 1967. (Tr. 826-831) Idaho's Uniform Post-Conviction Procedure Act was approved February 18, 1967. See Idaho 1967 Sess. Laws. Chap. 25, pgs 42-46 and Idaho Code Sections 19-4901 through 19-4911.

Your Appellee believes that Larsen has simply not shown that under 28 U.S.C. §2254(b) he has exhausted the remedies available in the Idaho state courts nor has he alleged an absence of an available state corrective process.

Furthermore, Appellant since the date of Judge McNichols' order has instituted in Bannock County under the Uniform Post-





Conviction Procedure Act an application for relief based on his allegation of the lack of a fair and impartial trial. (John Dee Larsen v. Orvil Stiles, Acting Warden of the Idaho State Penitentiary and the State of Idaho, Case No. C-317, in the District Court of the Sixth Judicial District of the State of Idaho, in and for Bannock County.

### CONCLUSION

The burden is on Appellant to substantiate his position that the federal trial court in quashing his second Writ of Habeas Corpus was clearly erroneous. Appellant's contentions have received extensive consideration by the Supreme Court of Idaho and two adjudications by Federal District Judge Ray McNichols. The lower court had before it twice the entire state court record and Appellee believes that Appellant has not convincingly revealed to this Court that Judge McNichols was in error. Appellee does not deny Appellant's attempt to pursue all the judicial remedies at his disposal but Appellee does believe all of his arguments have received adequate and valid treatment below.

Appellee respectfully requests that Appellant's appeal be denied, and the order of the trial court be affirmed.

Respectfully submitted,

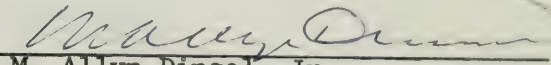
ALLAN G. SHEPARD  
ATTORNEY GENERAL  
STATE OF IDAHO

ROGER B. WRIGHT  
DEPUTY ATTORNEY GENERAL  
STATE OF IDAHO





M. ALLYN DINGEL, JR.  
SPECIAL ASSISTANT ATTORNEY GENERAL  
STATE OF IDAHO  
1010 Bank of Idaho Building  
BOISE, IDAHO

By   
M. Allyn Dingel, Jr.  
Special Assistant Attorney General



I certify that in connection with this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.



---

M. Allyn Dingel, Jr.  
Special Assistant Attorney General  
State of Idaho  
Attorney for Appellee

I hereby certify that I mailed a true and correct copy of the foregoing Appellee's Brief to Richard R. Black, Attorney for Appellant, Box 470, Pocatello, Idaho on the 17<sup>th</sup> day of July, 1968.



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M. Allyn Dingel, Jr.  
Special Assistant Attorney General  
State of Idaho  
Attorney for Appellee









N O. 2 2 4 8 5

IN THE UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT

EDWARD POOL,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

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APPELLEE'S BRIEF

APPEAL FROM  
THE UNITED STATES DISTRICT COURT  
FOR THE SOUTHERN DISTRICT OF CALIFORNIA  
CENTRAL DIVISION

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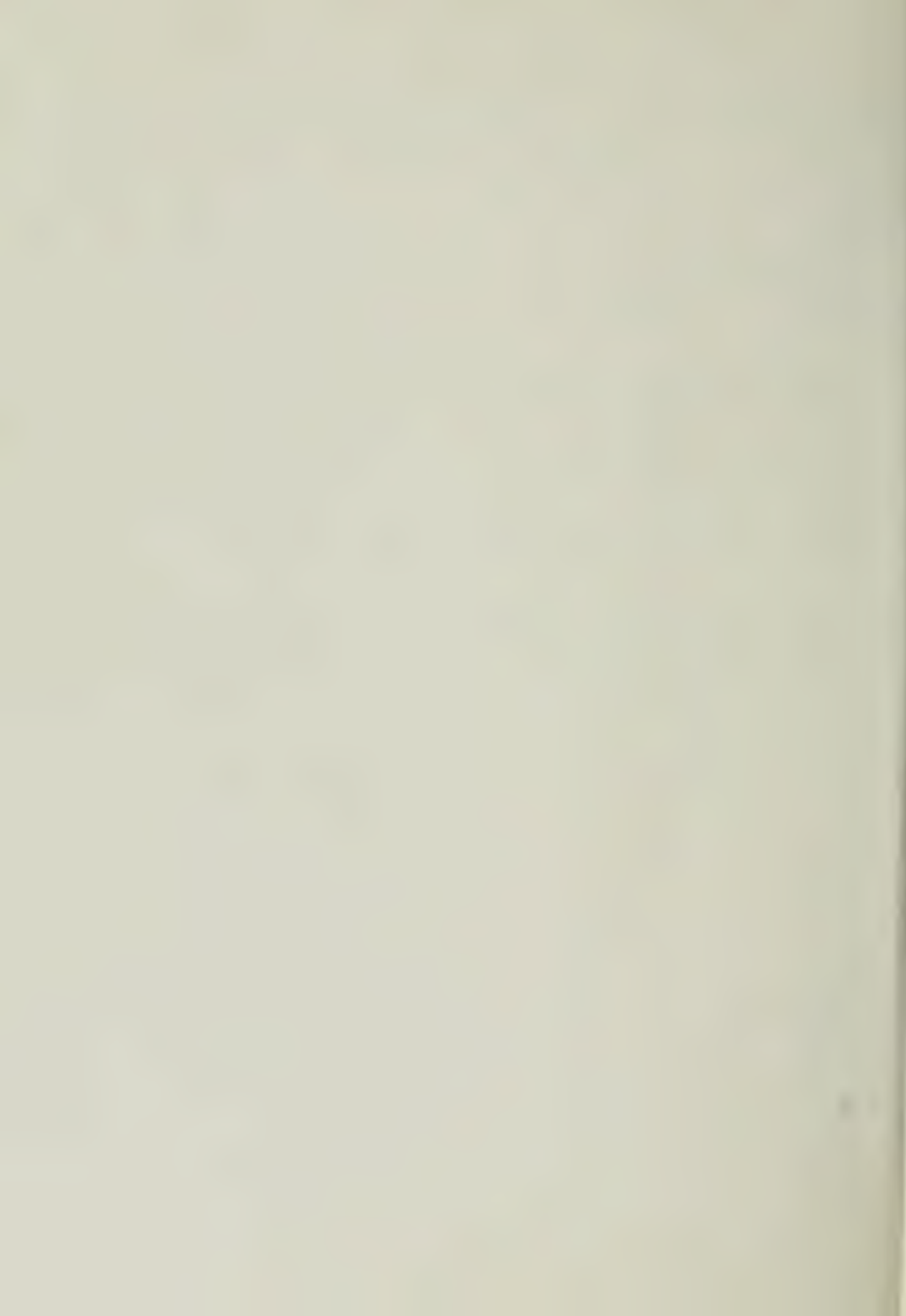
WM. MATTHEW BYRNE, JR.  
United States Attorney

ROBERT L. BROSIO  
Assistant U. S. Attorney  
Chief, Criminal Division

RONALD S. MORROW  
Assistant U. S. Attorney

1200 U. S. Court House  
312 North Spring Street  
Los Angeles, California 90012  
688-2434  
688-2413

Attorneys for Appellee  
United States of America



## TOPICAL INDEX

	<u>Page</u>
Table of Authorities.	ii
I STATEMENT OF JURISDICTION.	1
II STATUTE INVOLVED.	2
III QUESTIONS PRESENTED.	3
IV STATEMENT OF FACTS.	4
V ARGUMENT.	13
A. APPELLANT WAS NOT DENIED THE EFFECTIVE AID OF COUNSEL AT TRIAL OR ON APPEAL.	13
B. APPELLANT WAS NOT DENIED A FAIR AND IMPARTIAL JURY TRIAL OR TRIAL OF ANY KIND.	16
C. APPELLANT WAS NOT COMPELLED TO BE A WITNESS AGAINST HIM- SELF.	18
D. POOL'S CONVICTION IS NOT BASED UPON EVIDENCE OBTAINED IN VIO- LATION OF THE FIFTH AND SIXTH AMENDMENTS AND THE ISSUE IS NOT THE PROPER SUBJECT OF A SECTION 2255 MOTION.	18
E. THE CONVICTION SHOULD NOT BE VACATED BECAUSE OF A CLAIMED DELAY OF ONE MONTH FROM ARREST TO INDICTMENT.	19
F. NO HEARING WAS REQUIRED ON THE 2255 MOTION.	20
CONCLUSION.	21



# TABLE OF AUTHORITIES

<u>Cases</u>	<u>Page</u>
Brookhart v. Janis, 384 U. S. 1 (1966)	16
Dalrymple v. United States, 366 F. 2d 183 (9th Cir. 1966)	13-14
Hodges v. United States, 282 F. 2d 858 (D. C. Cir. 1960), cert. granted 365 U. S. 810, cert. denied 368 U. S. 139	18
Pool v. United States, 344 F. 2d 943 (9th Cir. 1965), cert. denied 382 U. S. 832 (1965)	1, 15-16, 18-19
Stein v. United States, 390 F. 2d 625 (9th Cir. 1968)	16
<u>Constitution</u>	
United States Constitution	
Fifth Amendment	18
Sixth Amendment	18
<u>Statutes</u>	
Title 18 U. S. C., §3231	2
Title 21 U. S. C., §174	1-2, 18-19
Title 28 U. S. C., §1291	2
Title 28 U. S. C., §1294	2
Title 28 U. S. C., §2255	1-3, 18-20



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APPELLEE'S BRIEF

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I

STATEMENT OF JURISDICTION

"Appellant commenced his trial before a jury on four counts, two charging the concealment and two charging sale of two amounts of heroin. [21 U. S. C. §174] During the jury trial, the parties signed a stipulation of facts, and the case was thereafter tried by the court. Appellant was found guilty on each count, and sentenced to ten years -- five years on each count, counts three and four to run consecutively with one and two, respectively," Pool v. United States, 344 F.2d 943 (9th Cir. 1965), cert. den. 382 U. S. 832 (1965).

Pool filed the instant Section 2255 motion on May 19, 1967





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I

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Pool filed the instant Section 2255 motion on May 19, 1967



[C. T. 2]. 1/ On October 18, 1967, there was filed and entered by the District Court an Order Denying Motion [§2255 of Title 28, United States Code] [C. T. 74].

Appellant filed, on December 15, 1967, a Notice of Appeal [C. T. 103].

The District Court had jurisdiction under the provisions of Title 18, United States Code, Section 3231; Title 21, United States Code, Section 174, and Title 28, United States Code Section 2255.

This Court has jurisdiction to review the judgment of the District Court pursuant to Title 28, United States Code, Sections 1291, 1294 and 2255.

## II

### STATUTE INVOLVED

Appellant's motion, the denial of which is the basis of the instant appeal, was brought under the provisions of Title 28, United States Code, Section 2255, which, in pertinent part, provides:

"A prisoner in custody under sentence of a court established by Act of Congress claiming the right to be released upon the ground that the sentence was imposed in violation of the Constitution or laws of the United States . . . , or is otherwise subject

---

1/ "C. T." refers to the Clerk's Transcript.



to collateral attack, may move the Court which imposed the sentence to vacate, set aside or correct the sentence . . .

"An appeal may be taken to the Court of Appeals from the order entered on the motion as from a final judgment or application for a Writ of Habeas Corpus. . . ."

### III

#### QUESTIONS PRESENTED

- A. Whether appellant was denied the effective aid of counsel at trial or on appeal.
- B. Whether appellant was denied a jury trial or a trial of any kind.
- C. Whether appellant was compelled to be a witness against himself.
- D. Whether appellant's conviction was based upon illegally obtained evidence and whether such an issue may be raised in a 2255 motion.
- E. Whether a delay of one month between arrest and indictment requires the vacating of a judgment.
- F. Whether an evidentiary hearing was required on this instant 2255 motion.





#### IV

#### STATEMENT OF FACTS

There will shortly be made a motion to supplement the record on appeal so that the Court may have before it the Clerk's and Reporter's Transcripts of proceedings that were before it on the direct appeal. In expectation of the granting of said motion reference will be made to said transcripts as "R. T. " for Reporter's Transcript and "C. T. I" for the original Clerk's Transcript.

Appellant was indicted on February 19, 1964 [C. T. I, 2-5], arraigned, and pleaded not guilty [C. T. I, 8].

The case was thereafter assigned to the Honorable Leon R. Yankwich for all further proceedings [C. T. I, 8].

On May 26, 1964, the case came on for trial before Judge Yankwich. A jury, together with one alternate, was impanelled and sworn; the Assistant United States Attorney, Ronald Morrow, made an opening statement; appellant's attorney Joe Ingber, reserved opening statement; and the court admonished the jury and recessed until May 27, 1964, at 10:00 A. M. , for further trial [C. T. I, 16].

On May 27, 1964, at 10:21 A. M. , court convened with appellant, appellant's counsel, and Government counsel present, outside the presence of the jury. The Government moved to revoke appellant's bail, a hearing was held upon said motion and the Court ordered motion denied [C. T. 17].



After a short recess the following proceedings were had in chambers, out of the presence and hearing of the jury, both counsel and defendant being present:

"THE COURT: Let the record show these proceedings are had outside the presence of the jury, in the court's chambers, in the presence of the clerk.

"MR. MORROW: Please let the record show that counsel for the Government, the defendant and defendant's counsel are here.

"THE COURT: All right.

"MR. MORROW: Your Honor, counsel for defendant approached me and would like to dispose of this case on a stipulated fact situation, and we will work through the morning and try and have the final stipulation of fact to you by early this afternoon.

"MR. INGBER: It would be the desire of the defendant at this time to waive his right to trial by jury and to submit the matter to the court upon a stipulated set of facts, as the representative of the Government has indicated.

"MR. MORROW: Your Honor, the Government will not consent to the waiver of the jury until the stipulation is drafted and signed.

"MR. INGBER: At which point the waiver will then be effective. I merely want to indicate to



the court that the jury perhaps need not be immediately tied up certainly for this morning.

"THE COURT: Will 2:00 o'clock be enough time?

"MR. INGBER: I hope so.

"THE COURT: Well, we can excuse the jury and tell them they are excused and to come back at 2:00 o'clock. " [R. T. 96. 97].

Whereupon the court reconvened in the presence of the jury, the court admonished the jury, and excused them until 2:00 P. M. [C. T. I, 17].

At 2:30 P. M., the court reconvened out of the presence and hearing of the jury, both counsel and the defendant being present [C. T. I, 17].

A stipulation of fact [C. T. 10-15], signed by defendant and both counsel was filed with the court. The court, after reading and considering the stipulation of fact, found the defendant guilty as charged on the four counts of the indictment [R. T. 99, 100].

Thereupon the defendant was sentenced by the court and the jury returned to the courtroom and was discharged [C. T. 17].

The Stipulation referred to above is here set out in full:

1. On Thursday, January 16, 1964, an undercover informant of the Federal Bureau of Narcotics met the defendant EDWARD POOL at a car lot at 89th and San Pedro Streets in



Los Angeles, California. At that time the informant told the defendant that she desired to buy some heroin for a friend of hers. The defendant told the informant to let him know when the friend was ready to buy the heroin.

2. On Friday, January 17, 1964, at about 6:30 P. M., the defendant called the informant by the use of a telephone and asked her when she would be ready to conduct the transaction.

3. At approximately 8:00 P. M., the defendant called again and told the informant that he would meet her at the corner of San Pedro and Colden Streets around 9:00 P. M. The defendant further informed the informant that she would leave her friend, James Parker, an agent of the Federal Bureau of Narcotics, in the car, about a block away.

4. The informant owed the defendant \$150 previously. The defendant told the informant to bring as much money as she could, as he was going to Tijuana tomorrow, and was going to make a "big score". At that time the informant told the defendant that she wanted to buy three spoons of heroin for a girl friend of hers.

5. At approximately 9:30 P. M., Agent Parker and the informant arrived at Colden and San Pedro streets in Los Angeles, California, where the agent parked the car.

6. The informant then left the agent in the automobile and went to the southwest corner of Colden and San Pedro Streets where she was met by the defendant.

7. The defendant stated that he did not want to meet





the friend of the informant and for the informant to get the money. The informant told the defendant that her friend would not give up his money unless he saw the heroin.

8. The defendant stated to the informant that the heroin was laying by his feet and that the informant was to pick it up and give it to the man and then get the money and bring it to him at the London House, a club that was being leased by the defendant. The informant told the defendant that she was afraid the friend might take the heroin and not give her the money.

9. The informant then left the defendant and returned to the car where Agent Parker was seated and explained the situation to him. At that time the agent conversed by means of radio communication with surveilling agents of the Federal Bureau of Narcotics in an accompanying car.

10. After conversing with the other agents by means of radio communication, Agent Parker handed to the informant \$600 in recorded money. The money consisted of thirty \$20 bills.

11. The informant then left Agent Parker's car and returned to the corner. The defendant was not there, and the informant returned the \$600 to Agent Parker.

12. The defendant soon reappeared on the scene and parked his black 1958 Oldsmobile station wagon on Main Street north of Colden Street. The informant and Agent Parker then left their automobile and approached the defendant. When the defendant saw Agent Parker approaching he walked away and stopped. When Agent Parker advanced again the defendant retreated again.



Agent Parker returned to the automobile in which he had been sitting and the informant went ahead and met with the defendant.

13. The informant then gave the defendant \$100 of the \$150 that she owed him. The defendant then handed the informant the key to a 1950 black Buick and told her that on Colden Street near Main Street, there was an old Buick parked and that the key would open the trunk of the car and in there would be the ounce of heroin that her friend requested and also the three spoons of heroin that her girl friend wanted. The defendant informed the informant that he would be parked behind the black 1950 Buick and that she and her friend should park behind him. She was then instructed to take the \$600, go to the trunk of the 1950 Buick, take out the packages of heroin, and return to his car, the 1958 Oldsmobile station wagon, and hand him the money.

14. Upon returning to Agent Parker's car, the informant advised Agent Parker of the intended transaction, and Agent Parker contacted the other surveilling agents. At that time it was decided between the agents that they would meet and install upon the person of the informant a Fargo, a transmitting device.

15. At that time all of the agents met with the informant at a location in the vicinity of the intended transaction and there was installed upon the person of the informant the above mentioned Fargo.

16. Agent Parker and the informant then went in Agent Parker's car to the intended site and parked behind the defendant's



black Oldsmobile station wagon. At that time Agent Parker informed the informant that she should do only what he said and that was for her to stay in view and to give the defendant the \$600 after she obtained the heroin and then come back to the agent.

17. The informant then went past the defendant sitting in the Oldsmobile station wagon and opened the trunk of the old Buick, extracted the two parcels of heroin, weighing 24.7 grams and 4.83 grams, and closed the trunk of the Buick. The informant then dropped the "three spoons" which were contained in a red balloon in the gutter. The informant then got into the defendant's car and gave him the \$600 that the agent had given her. Upon the completion of the sale transaction, the informant left the defendant's car and walked back to the car of Agent Parker and gave him the ounce of heroin.

18. Agent Parker then apprised the accompanying agents that the informant had given him the ounce of heroin and that the informant had given the defendant the \$600 of previously recorded money.

19. At that time Agent Parker and the informant drove away while the other car of surveilling agents observed the defendant leave the area where he had been parked and proceed toward the above mentioned London House. As the defendant drove into the parking lot behind the London House, the agents, with the defendant still in view, arrived and informed the defendant that he was under arrest for violation of the Federal Narcotics Laws. At that time the defendant had the \$600 of previously recorded money





in his left hand. In the parking lot, at the site of the arrest, the money in the possession of the defendant was compared with the list of serial numbers of the previously recorded money and the serial numbers matched. The above comparison of the money with the list of serial numbers was done in the presence of the defendant.

20. The defendant was then taken to the office of the Federal Bureau of Narcotics.

21. At the Federal Bureau of Narcotics office the informant then, for the first time, informed the agent that she had purchased the above mentioned red balloon of "three spoons" of heroin. The informant was then taken back to the area and at the location she described, Agent Charles Sherman found the red balloon of heroin and picket it up.

22. Upon arrival back at the office of the Federal Bureau of Narcotics, Agent Charles Sherman field tested the contents of the condom containing the ounce of heroin and also the contents of the red balloon for heroin and the test proved to be positive.

23. The two parcels of heroin were weighed and sealed by Agent Charles Sherman on January 17, 1964, and witnessed by Agent John Hunt. The exhibits were then mailed on January 20, 1964, to the United States Chemist, San Francisco, California, via registered mail. Agent Irving Lipschutz accompanied Agent Charles Sherman from the Federal Narcotics Office down to the post office to mail the contents of the package.



24. On January 23, 1964, Herman Meuron, a chemist in the office of the United States Chemist, personally received from a mail-man the above mentioned parcel. Herman Meuron personally tested the contents of the two parcels, the condom and the red balloon. The results of the test disclosed that of the ounce of heroin in the condom 39.7% of the contents was heroin. The test of the contents of the red balloon disclosed that 8.2% of the contents was heroin.

25. On January 18, 1964, in an Attorney's Room in the Hall of Justice, in Los Angeles, California, Agent Irving Lipschutz at the request of the defendant met the defendant. At this meeting in response to the question of what was the defendant's source of supply, the defendant stated that his source of supply was a man by the name of Memo, in Tijuana. In response to the question of whether Memo was the source of supply for the heroin obtained by the Federal Bureau of Narcotics on the previous evening, January 17, 1964, the defendant answered, "Yes".

26. On January 20, 1964, in a fifth floor office of the Federal Bureau of Narcotics in Los Angeles, California, at which the defendant, Agent Irving Lipschutz and Agent Charles Sherman were present, the defendant again answered the question of whether the narcotics obtained on the night of January 17, 1964, were obtained from Memo in Tijuana, the defendant answered, "Yes".

27. On January 21, 1964, the defendant placed a call monitored by Agent James Parker, to a man named Memo in



Tijuana. Pursuant to this call the man named Memo was arrested by Mexican Federal Judicial Agents with the cooperation of the agents of the Federal Bureau of Narcotics. Memo, and his co-conspirators, were convicted for possession of narcotics by the Mexican National Government.

At page 106 of the Reporter's Transcript appears the following statement of defense counsel in response to a request by the prosecution for the immediate remand of the person of the defendant:

"MR. INGBER:

\* \* \*

The point that I stress, your Honor, is that he came today unprepared to remand himself, fully aware that if a stipulation of those facts were in order he might be able to prepare himself with a presentence report. . . ."

## V

### ARGUMENT

A. APPELLANT WAS NOT DENIED THE EFFECTIVE AID OF COUNSEL AT TRIAL OR ON APPEAL.

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The claim of appellant that he was denied effective aid of counsel can only be sustained if the attorney, or rather attorneys in this case, were "so incompetent or inefficient as to make the trial a farce or a mockery of justice." Dalrymple v. United



States, 366 F.2d 183 (9th Cir. 1966).

Appellant cites several instances, none of which demonstrate incompetence or a deprivation of rights. Initially, Pool says that his counsel was only given one day to prepare a defense. Pool substituted Joe Ingber for Irving Ackert on the date that had been set for trial approximately six weeks earlier [C. T. I 8; C. T. I 17]. At page 26 of the Reporter's Transcript appears the request on behalf of Pool for a substitution. The Trial Court made it clear that a substitution would not be allowed for the purpose of obtaining a continuance. When counsel for Pool requested some time for preparation after the empanellment of a jury the following colloquy took place, at R. T. 27:

"THE COURT: I think I said that if you want an added day I will select the jury and send the panel home and give you a day.

"MR. INGBER: That is correct. That will be the only continuance of any nature that would be requested on behalf of the defendant.

"THE COURT: All right.

"THE CLERK: Is that agreeable to you, Mr. Pool, that Mr. Ingber be substituted for your attorney in place of Mr. Ackert?

"THE DEFENDANT: Yes, it is."

Pool next complains "that his counsel did not discuss any defenses to the charges; he did not investigate the law and facts;"





and other complaints, leading to the conclusion "that appellant's trial was reduced to a farce and a sham" (Op. Br. 21). Appellant's claims are the product of a natural dissatisfaction with one's counsel following several years in a penitentiary. The case itself, as shown by the stipulation signed by Pool, was simple. There was no argument as to the facts. There was disagreement as to the effect of the stipulation inasmuch as appellant claimed on his direct appeal that there was insufficient evidence to sustain the conviction. (Pool, supra,

Pool complains that he was not advised of the kind of trial "he was going to receive." The record belies that claim. At R. T. 106 appears the representation that Pool was "fully aware" that a stipulation was intended.

Pool objects to the competency of appellate counsel, Russell E. Parsons, because Parsons could have raised other issues. Such ground, appellant submits, is proven by his present makeweight arguments.

The simple fact appears from the entire record that there was no disagreement between the defendant, his counsel, and the prosecution as to what the facts were. There was merely a desire on behalf of the defendant to obtain some time prior to service of his sentence by taking an appeal.



B. APPELLANT WAS NOT DENIED A FAIR AND IMPARTIAL JURY TRIAL OR TRIAL OF ANY KIND.

---

"Issues disposed of on a previous direct appeal are not reviewable in a subsequent petition under §2255." Stein v. United States, 390 F. 2d 625 (9th Cir. 1968).

This Court found in the direct appeal that there was a "valid waiver of jury." This Court's opinion found that Pool's action, and the Court's holding, guaranteed Pool a free and intelligent waiver. "In protecting any defendant's constitutional rights we do, and should, look beyond form to substance." Pool, supra, at 833.

In addition to Pool's claiming there was no waiver of a jury trial he claims he was deprived of a trial altogether because he and his counsel stipulated to the facts, thereby depriving him of the right of being confronted by the witnesses against him and the right to cross-examine them. It is submitted that the "free and intelligent waiver" found by this Court relative to a jury trial also applies to the instant claim.

Pool relies on Brookhart v. Janis, 384 U.S. 1 (1966), for the proposition that the instant case is the same as a plea of guilty over the objection of defendant himself. In Brookhart there was a prima facie case made by the prosecution without stipulation or cross-examination by the defense. The Supreme Court, relying on the Ohio court, found the procedure the equivalent of a plea of



guilty. The following language appears at page 7 of the Supreme Court's opinion:

" . . . Although he expressly waived his right to a jury trial, he never, at any time, either explicitly or implicitly, pleaded guilty. His emphatic statement to the judge that "in no way am I pleading guilty" negatives any purpose on his part to agree to have his case tried on the basis of the State's proving a prima facie case which both the trial court and the State Supreme Court held was the practical equivalent of a plea of guilty. Our question therefore narrows down to whether counsel has power to enter a plea which is inconsistent with his client's expressed desire and thereby waive his client's constitutional right to plead not guilty and have a trial in which he can confront and cross-examine the witnesses against him. . . "

In the instant case there was a stipulation of the facts by the defendant personally, his attorney, and the plaintiff. There was no disagreement as to what the facts were. No one can sincerely say that when there is no dispute as to the facts that he expects to challenge those facts by cross-examination.

Pool claims that there is no authority for a trial based on a stipulated factual situation. The very essence of any trial is the determination of facts and then an application of the law to those





facts. Inherent in the fact-finding process is the possibility that there may be no dispute as to the facts. Stipulations have historically been a part of lawsuits and no act of Congress is required in order to rely upon and utilize them.

C. APPELLANT WAS NOT COMPELLED TO BE  
A WITNESS AGAINST HIMSELF.

---

Pool claims that the presumption of Section 174 required him to be a witness against himself. Initially, Pool did not testify. Secondly, Pool has litigated the constitutionality of Section 174 already and the issue was determined adversely to his interests. Pool, supra.

D. POOL'S CONVICTION IS NOT BASED UPON  
EVIDENCE OBTAINED IN VIOLATION OF  
THE FIFTH AND SIXTH AMENDMENTS AND  
THE ISSUE IS NOT THE PROPER SUBJECT  
OF A SECTION 2255 MOTION.

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Absent a showing of a real miscarriage of justice, the admission of a confession at a trial is not subject to collateral attack under Section 2255. Hodges v. United States, 282 F.2d 858 (D.C. Cir. 1960), cert. granted 365 U.S. 810, cert den. 368 U.S. 139.

Factually, the only matters found in the evidence before the trial court relative to admissions of the defendant are found in paragraphs 25 and 26 of the stipulation, supra. Said admissions



were to the effect that the heroin obtained had come from Memo in Tijuana.

Pool complains that the trial court should have held a Jackson v. Denno hearing relative to the admission of said statements. Nowhere does Pool cite any case that says a judge must, sua sponte, hold a hearing when there is no request therefor or an objection thereto. No cases are cited because such is not the law.

Pool assumes that his conviction is based upon, or dependent upon, the subject admissions. As this Court said earlier, because of the presumption of Section 174, reliance on the admissions was unnecessary. Pool, supra.

Assuming, arguendo, that the admissions were extracted by promises, they were not essential to the conviction. Assuming, arguendo, there was error, it was harmless.

E. THE CONVICTION SHOULD NOT BE VACATED  
BECAUSE OF A CLAIMED DELAY OF ONE  
MONTH FROM ARREST TO INDICTMENT.

---

Pool was arrested on January 17, 1964 [Stipulation supra, paras. 2, 19]. Pool was indicted on February 19, 1964 [C. T. I, 2-5].

Pool cites no cases for the proposition that a mere one month lapse of time between arrest and indictment is grounds for the granting of a Section 2255 motion. There is no claim that evidence became unavailable to him during that time.

As the trial court herein stated, at pages four and five of



its Order Denying Motion:

"It appears from petitioner's motion that he contributed to and acquiesced in any alleged delay of trial by cooperating with federal agents in an effort to secure a lighter sentence, and is not, therefore, entitled to a dismissal. (United States v. Sawyers, 186 F.Supp. 264) It further appears that petitioner failed to make demand for speedy trial. He is, therefore, estopped at this late date from asserting delay as a ground for dismissal from custody. (United States v. Fossoulis, 179 F.Supp. 645).

F. NO HEARING WAS REQUIRED ON THE  
2255 MOTION

---

As this brief demonstrates, there was no need for a hearing on the 2255 motion. Each of the arguments made by Pool are conclusively refuted by the court records or by the previous litigation in the case.

The only claim that might have been considered in a hearing was Pool's claim that he was "still under the influence of alcohol and the illness of the alcohol" on the "trial day" when coupled with the affidavit of Joe Ingber that "[t]his stipulation was not read by the defendant." Said claim does not state that Pool was not fully aware of the contents of the stipulation and understood it. It is interesting to note that Ingber did not say Pool didn't understand



what he was doing or was under the influence of alcohol. The mere fact that Pool may not have read the stipulation personally is immaterial inasmuch as it could have been read to him, as in fact, it was. A mere conclusion is not grounds for a hearing.

### CONCLUSION

Based upon the foregoing arguments, the judgment of the District Court should be affirmed.

Respectfully submitted,

WM. MATTHEW BYRNE, JR.  
United States Attorney

ROBERT L. BROSIO  
Assistant U. S. Attorney  
Chief, Criminal Division

RONALD S. MORROW  
Assistant U. S. Attorney

Attorneys for Appellee  
United States of America





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Assistant U. S. Attorney

Attorneys for Appellee  
United States of America



IN THE UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT

FEB 2 1969

JOHN F. BURKE, )

Appellant, )

NO. 22486

-vs- )

INTERNATIONAL BROTHERHOOD OF )

BOILERMAKERS, IRON SHIPBUILDERS, )

BLACKSMITHS, FORGERS AND HELPERS, )

and LOCAL NO. 6 thereof, )

Appellees. )

APPELLANT'S CLOSING BRIEF

FILED

JAN 31 1969

WM. B. LUCK, CLERK

RICHARD GLADSTEIN  
NORMAN LEONARD  
GLADSTEIN, ANDERSEN, LEONARD & SIBBETT  
1182 Market Street  
San Francisco 94102  
626-3077

Attorneys for Appellant

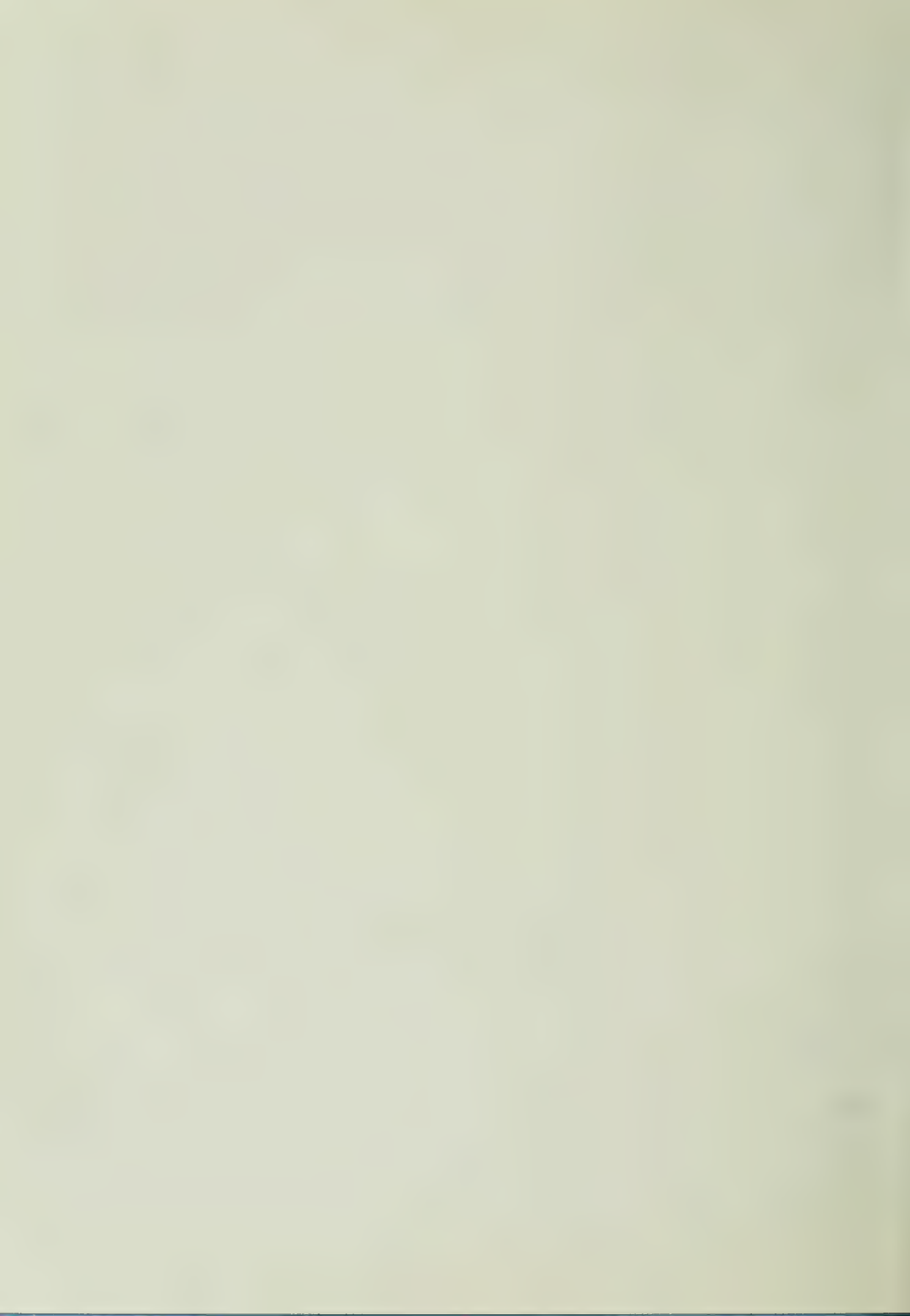


IN THE UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT

JOHN F. BURKE, )  
Appellant, ) NO. 22486  
-vs- )  
INTERNATIONAL BROTHERHOOD OF )  
BOILERMAKERS, IRON SHIPBUILDERS, )  
BLACKSMITHS, FORGERS AND HELPERS, )  
and LOCAL NO. 6 THEREOF, )  
Appellees. )  
\_\_\_\_\_ )

APPELLANT'S CLOSING BRIEF

Richard Gladstein  
Norman Leonard  
Gladstein, Andersen, Leonard & Sibbett  
1182 Market Street  
San Francisco, California 94102  
  
Attorneys for Appellant





INDEX

	<u>Page</u>
I. JURISDICTION AND ASSIGNMENT OF ERROR. . . .	1
II. and III. APPELLANT WAS DEPRIVED OF THE RIGHTS GUARANTEED TO HIM BY 29 U.S.C. 411(a)(1) AND (2) AND HE WAS DENIED THE RIGHTS GUARANTEED TO HIM BY 29 U.S.C. 411(a)(5). . . . .	3
CONCLUSION . . . . .	2



TABLE OF AUTHORITIES CITED

Page

CASES

Boilermakers Union v. Rafferty, 348 F. 2d 367. . . . .	2
Leonard v. M.I.T. Employees' Union, 225 F. Supp. 937. . . . .	6
Parks v. International Brotherhood of Electrical Workers, 203 F. Supp. 288. . . . .	9
Salzhandler v. Caputo, 615 F. 2d 442. . . . .	9
Vars v. International Brotherhood of Boiler- makers, 215 F. Supp. 343. . . . .	7
Vars v. International Brotherhood of Boiler- makers, 320 F. 2d 576. . . . .	7

RULES

Federal Rules of Appellate Procedure. . . . .	1,2
---	-----



TABLE OF AUTHORITIES CITED (continued)

Page

STATUTES

28 U.S.C.A. 1291. . . . .	2
29 U.S.C. 411(a)(1) . . . . .	3, 4, 6
29 U.S.C. 411(a)(2) . . . . .	3, 4, 6
29 U.S.C. 411(a)(5) . . . . .	3, 6, 7

ARTICLES

Summers, LEGAL LIMITATIONS ON UNION DISCIPLINE, 64 Harvard Law Review 1049 . . .	5
---	---



IN THE UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT

JOHN F. BURKE,

)

Appellant,

)

NO. 22486

-vs-

)

APPELLANT'S CLOSING BRIEF

INTERNATIONAL BROTHERHOOD OF  
BOILERMAKERS, IRON SHIPBUILDERS,  
BLACKSMITHS, FORGERS AND HELPERS,  
and LOCAL NO. 6 THEREOF,

)

)

Appellees.

)

)

I.

JURISDICTION AND ASSIGNMENT OF ERROR

Appellees complain (BR. 1)<sup>1/</sup> that we have not indicated the basis of this court's jurisdiction nor (BR. 2) have we set forth a specification of errors. Our brief, however, quite literally followed the Federal Rules of Appellate Procedure, effective July 1, 1968, Rule 28 of which specifies the content of an appellant's brief. Nowhere in the rule is provision made for either a statement of jurisdictional grounds or a specification of errors.

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<sup>1/</sup> Appellee's Brief is referred to herein as BR; Appellant's Opening Brief is referred to herein as OP. BR; CT refers to Clerk's Transcript.





Lest appellees be misled, however, let us say that this court's jurisdiction of this appeal rests squarely on the basic underlying appellate statute, 28 U.S.C.A. 1291, which provides

"§1291. Final decisions of district courts

The courts of appeals shall have jurisdiction of appeals from all final decisions of the district courts of the United States. . . , except where a direct review may be had in the Supreme Court."

And that the "Specification of Errors" which appellees seek is to be found in the "Statement of Issues to be Presented for Review" (see Rule 28[a][2], F.R.A.P., supra), on pages 1 and 2 of our opening brief:

"(1) Did the District Court have jurisdiction to review the actions of the defendant unions?

(2) Was plaintiff deprived of the rights of speech and assembly within the unions guaranteed to him by 29 U.S.C.A. 411(a)(1) and (2)?

(3) Was plaintiff denied the safeguards against improper disciplinary action guaranteed to him by 29 U.S.C.A. 411(a)(5)?" (OP. BR. 1:25 - 2:5).

The claimed errors of the District Court obviously are its holding that questions 2 and 3, supra, were to be answered in the negative, rather than in the affirmative (see our Opening Brief, pp. 12, 15).<sup>2/</sup>

With this behind us, we turn to the issues on the merits.

---

<sup>2/</sup> Question 1, supra, we concede, was answered correctly by the District Court in assuming jurisdiction of this case (OP. BR. 11). Apparently appellees agree with us (BR. 6)



II and III

APPELLANT WAS DEPRIVED OF THE RIGHTS GUARANTEED  
TO HIM BY 29 U.S.C. 411(a)(1) AND (2) AND  
HE WAS DENIED THE RIGHTS GUARANTEED TO  
HIM BY 29 U.S.C. 411(a)(5)

---

In our opening brief we separated the "substantive" aspects of the case (those based on 411[a][1][2]) from the "procedural" ones (those based on 411 [a][5]). They are, however, obviously interrelated and in this reply brief we shall treat them under one heading since the argument flows from one directly into the other.

. . . . .

Appellees, citing Salzhandler v. Caputo, 615 F. 2d 442 (2d Cir., 1963)<sup>3/</sup>, recognize that Section 411(a)(1) and (2) were designed to protect the rights of a union member to discuss freely, and to criticize, the management of the union and the conduct of its officers.

Appellees cannot, and do not, deny that appellant was for a number of years engaged in precisely this kind of protected activity and that this was the critical area of conflict between him and the International Union which eventually expelled him from membership. They claim, however, that because the International Union found a convenient excuse upon which to peg

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<sup>3/</sup> As we pointed out in our opening brief, Salzhandler was cited with approval and followed by this court in Boilermakers Union v. Rafferty, 348 F. 2d 307, 311-312 (9 Cir., 1965) -- a case involving this very international union.



its action, this court should blind itself to the realities revealed by the record. These realities are that appellant was an articulate champion of the autonomy of the San Francisco local and of the democratic rights of its members and that it was this conduct on his part which brought him into open, notorious and repeated conflict with the International. Appellees do not, because they cannot, deny that, in the presence of the International President (who later cast his not insignificant weight on the side of appellant's expulsion), the International Vice-President and Executive Board Member who instigated the charges against appellant, who refused to withdraw them at the informal conference and who pressed them vigorously throughout, categorically stated that the case against appellant was really being prosecuted, not because of the removal of the contracts, but because of "an accumulation of events that had transpired." These events, of course, had to do with appellant's opposition to international policy on a variety of internal union questions: should the books be open or closed; should the local or the international determine who got higher paying jobs; should a credit union be permitted to operate in the local union hall; should the local subscribe to a labor newspaper for its members; should the local be placed under an international trusteeship?

In asserting and advocating his position on each of these issues, appellant was plainly exercising rights guaranteed to, and protected for, him by Section 411(a)(1) and (2) of the Act.





That he was in truth and fact punished because of the "accumulation of [these] events" is crystal clear from the record. That is what the trial was all about.

A competent observer of these matters has noted that bias may take the form of

"deliberately using discipline as a device to eliminate disliked members" (Summers, LEGAL LIMITATIONS ON UNION DISCIPLINE, 64 Harvard Law Review 1049, 1082).

And it has been held that a member may not be punished on the basis of a charge which is merely a pretext to eliminate him because he was critical of the union's officers or policies (Leonard v. M.I.T. Employees' Union, 225 F. Supp. 937 [DC, Mass., 1964]) -- a case mentioned in our opening brief and not even adverted to by appellees.

When the record is read in its entirety, it is clear that this is precisely what happened here. Thus, not only is there the concession of Vice President Precht noted above that the case was being prosecuted because of "an accumulation of evidence" relating to appellant's anti-International activity, but there is also the unwarranted assumption of jurisdiction by the international union after the local people indicated they had no disposition to act against appellant; there is the fact that the informal hearing was not utilized in any way by the International President to resolve the issue; there is the fact that the International President had already previously set the formal hearing for the very following day (anticipating



no doubt that the informal hearing would be aborted); there is the fact that the Trial Panel was impotent to rule on the International President's assumption of jurisdiction; there is the fact that neither the Trial Panel, the Executive Board nor the International President paid the slightest attention to the uncontradicted evidence that appellant was admittedly motivated by a desire to best represent the membership of Local Lodge No. 6; there is the fact that the International President forwarded the recommendation for the ultimate penalty with his "full concurrence"; there is the fact that any vote by a member of the Executive Board for a lesser penalty would have to be "fully explained"; there is the fact that several members of the Executive Board were in financial debt to the International. Finally, and perhaps most importantly, there is the fact, as the District Court itself found, that, taken all in all, this record is "barren of one shred of evidence" that what appellant did was "detrimental to the best interests of appellees." (See CT 492.) Yet, despite this fact and in the face of all the procedural violations heretofore enumerated, the maximum possible penalty -- expulsion -- was imposed upon appellant.

If the Bill of Rights for union members is to have any substantive meaning (411[a][1] and [2]) or if it is to require that minimum procedural guarantees are to be followed to protect union membership (411[a][1][5]), then, on this record, appellant's expulsion cannot stand.



The courts have not hesitated to enforce these provisions of the law in this regard. In addition to the cases cited in our opening brief, attention is called to Vars v. International Brotherhood of Boilermakers, 215 F. Supp. 943 (DC. Conn., 1963), in which the court set aside an expulsion order imposed by this same International upon one of its members, and stated:

"...in determining whether a full and fair hearing had been granted, it is within the province of the Court to satisfy itself that the findings and conclusions of the presiding trial hearing officer, as ratified and adopted by the Executive Council, are sufficient as a matter of law to sustain a finding of guilt. Where the record clearly indicates that the rule of law upon which conclusions were reached was in error, then such findings and conclusions should be set aside." (at 949)

In affirming the District Court in the Vars case, the Court of Appeals said:

"If Section 101(5) is to provide any measure of protection for the individual union member who finds himself beset by the full power of the International Union, some review is necessary in order to protect such members from obvious abuses. This is especially true in cases such as this where the hearing examiner is not an independent figure divorced from union controversies but is an officer of the International Union. Thus, although the courts may be without power to review matters of credibility or of strict weight of the evidence, a close reading of the record is justified to insure that the findings are not without any foundation in the evidence." (Vars v. International Brotherhood of Boilermakers, etc., 320 F. 2d 576, 578 [2 Cir., 1963]; underlining supplied).

Applying the foregoing principles to the record in this case, it is clear that the judgment of the court below  
.....



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Brotherhood of Boilermakers, 25 W. 8.

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SIBBETT

In affirming the District Court

of Appeals said:

"If Section 101(5) of the National Labor Relations Act provides for the protection of the individual employee who finds himself beset by the International Union, in order to protect his rights, this is essential to the hearing. The divorced of the International Union courts may find it a creditable reason at the time of the event of the Board of Directors, Cir.,

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should be reversed.

CONCLUSION

For the foregoing reasons, the judgment below should be reversed.

DATED: January 31, 1969.

Respectfully submitted,

GLADSTEIN, ANDERSEN, LEONARD & SIBBETT

By

Richard Gladstein

Norman Leonard

Attorneys for Appellant

4 / This is particularly true where, as here, the imposition of the extreme penalty is clearly unreasonable under all the circumstances and is unjust to the individual member. Compare Parks v. International Brotherhood of Electrical Workers, 203 F. Supp. 288, 311 (DC, Md., 1962).



No. 22486

FEB 24 1969

In the

# United States Court of Appeals

For the Ninth Circuit

JOHN F. BURKE,

*Appellant,*

VS.

INTERNATIONAL BROTHERHOOD OF BOILERMAKERS,  
IRON SHIPBUILDERS, BLACKSMITHS, FORGERS  
AND HELPERS, and LOCAL NO. 6 Thereof,

*Appellees.*

## Appellees' Brief

On Appeal from the United States District Court  
for the Northern District of California

LAW OFFICES OF CHARLES P. SCULLY  
CHARLES P. SCULLY  
DONALD C. CARROLL

995 Market Street, Eleventh Floor  
San Francisco, California 94103  
Telephone: 362-0244

FILED

NOV 11 1968

JOHN J. BLAKE

Attorney at Law  
570 New Brotherhood Building  
Kansas City, Kansas 66101  
Telephone: 0137 DE 1-2640

J. M. B. LUCK

*Attorneys for Defendants*

d & Sibbett

4102



## SUBJECT INDEX

	Page
Jurisdiction .....	1
Statement of the Case.....	2
Statement of Facts.....	3
Opposition to Statement of Issues.....	6
Argument .....	6
I. The Lower Court Had the Jurisdiction to Take the Action Which It Did.....	6
II. The Appellant Was Not Deprived of the Rights Guar- anteed to Him by 29 U.S.C. 411 (a) (1) and (2).....	6
III. The Appellant Was Not Denied the Rights Guaranteed to Him by 29 U.S.C. 411 (a) (5).....	10
Conclusion .....	12

d & Sibbett

4102

# TABLE OF AUTHORITIES CITED

CASES	Pages
Bush v. the International Alliance, 55 Cal. App. 2d 357 (1942)	9
Cornelio v. Metropolitan District Council Etc., 243 F. Supp. 126 (E.D. Pa., 1965), aff'd 358 F.2d 728 (C.A. 3, 1966).....	11
Fittipaldi v. Legassie, 7 App. Div. 2d 521, 37 L.C. Para. 65,552 (N.Y., 1959).....	9
Graham v. Soloner, 220 F. Supp. 711 (D.C. Pa., 1963).....	12
Madden v. Atkins, 4 N.Y. 2d 283, 151 N.E. 2d 73, 34 L.C. Para. 71,491 (1958) .....	9
Parks v. I.B.E.W., 203 F. Supp. 288, 44 L.C. Para. 17,546 (D.C. Md., 1962), rev'd 314 F. 2d 886, 46 L.C. Para. 18,073 (C.A. 4, 1963), cert. den. 372 U.S. 976 (1963).....	8, 9
Phillips v. Teamsters Etc. Local 560, 209 F. Supp. 768, 46 L.C. Para. 18,016 (D.C.N.J., 1962).....	9
Rosen v. the District Council No. 9, 198 F. Supp. 46, 43 L.C. Para. 17,074 (S.D.N.Y., 1961).....	9
Salzhandler v. Caputo, 316 F. 2d 445 (C.A. 2, 1963).....	6
Vars v. Boilermakers, 215 F. Supp. 943, 47 L.C. Para. 18242 (D.C. Conn., 1963), aff'd 320 F. 2d 576, 47 L.C. Para. 18,334 (C.A. 1963) .....	8

## STATUTES

29 U.S.C.:	
411(a) (1) .....	6, 10
411(a) (2) .....	1, 6
411(a) (5) .....	1, 6, 10
29 U.S.C. 412.....	1, 6
F.R.C.P. Rule 52(a).....	3

## OTHER AUTHORITIES

105 Daily Cong. Rec. 2237, February 19, 1959, I Legis. History of the L.M.R.D.A. of 1959, at p. 270.....	11
Title I, 105 Daily Cong. Rec. 5810, II Legis. History, p. 1102	11

No. 22486

In the

United States Court of Appeals  
*for the Ninth Circuit*

JOHN F. BURKE,

*Appellant,*

vs.

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IRON SHIPBUILDERS, BLACKSMITHS, FORGERS  
AND HELPERS, and LOCAL No. 6 Thereof,

*Appellees.*

**Appellees' Brief**

On Appeal from the United States District Court  
for the Northern District of California

**JURISDICTION**

This is an appeal from a judgment for the Defendants entered on November 8, 1967 by the United States District Court for the Northern District of California in an action brought under Section 102 of Title I of Landrum-Griffin, the Labor Management Reporting & Disclosure Act of 1959, 29 U.S.C. 412. The basis of jurisdiction on appeal has not been indicated by appellant.

In the Court below, the Court found that violations of 29 U.S.C. 411 (a)(2) and (a)(5) were alleged, which if true the court would have had jurisdiction to remedy under Section 412. (Judgment, C.T. p. 466, L. 30 per p. 468, L. 16)<sup>1</sup>

1. Appellees will follow Appellants designation of the record as "C.T." for Clerk's Transcript and "R.T." for Reporter's Transcript.

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**STATEMENT OF THE CASE**

Appellant JOHN J. BURKE was charged in writing with having violated certain sections of the Union Constitution when he, without authority and by positive misrepresentations, stole and temporarily refused to return all the copies of the Pacific Coast Shipyard Master Agreement (Plaintiff's Exhibit 16). He was tried upon this charge, and none other (the transcript of the International Trial Panel is Plaintiff's Exhibit 21); he was found guilty and expelled from membership.

In the District Court,<sup>2</sup> Appellant urged that the union proceedings were but a matter of form and that he was in fact "gotten" for other things. Specifically, he relied on evidence of friction between himself and one of the International's vice presidents, James Precht, and his opposition to certain Union positions. The Lower Court found that the Union's findings were supported by evidence and that there was no proof that the Trial Panel or Executive Council knew of these matters, or more importantly, acted upon any such knowledge with bias and improper motives. (Judgment, C.T. p. 466).

Although there is no specification of errors in Appellant's opening brief, it is clear that Appellant seeks a

---

2. Appellant first brought suit for reinstatement in the California Superior Court. On a hearing for a preliminary injunction, the State court ordered him reinstated pending trial but without the ability to run for union office in an approaching election. In an attempt to get relief from this disability appellant sought injunctive relief in the Federal District Court, which denied the relief but with leave to amend to try the correctness of the expulsion under Section 101 (a)(2) and (5) of Title I. Upon being advised by proper motion that appellant was seeking the same relief in the Federal Court, the State court vacated the preliminary injunction and the case proceeded before the federal court. Footnote 2, p. 3 of Appellant's Brief suggests the State court, contrary to the federal court, originally returned appellant to membership on a permanent basis; such is not the case.

general review of these findings of the lower court. It is Appellees' position that this is thus largely a factual appeal and that the lower court after two weeks of having heard nearly every dispute large and small within the local union and between the personalities, and after having heard and observed both the charging party, Mr. Precht, and Mr. Burke, cannot be said to have made findings which are clearly erroneous. Rule 52(a) F.R.C.P.

### STATEMENT OF FACTS

After Appellant was charged for having taken the agreements, the International President advised the Appellant that the International Union was taking jurisdiction under Section 3(b) of the International Constitution (Plaintiffs' Exhibit 17).

An informal hearing was held pursuant to notice and the International Constitution (Defendants' Exhibit A). Section 2(b) of Article XVII mandates a sincere effort to settle the matter but does not mandate the charging party to settle.

According to the testimony of Burke's counsel, Mr. Cummings, the meeting was held in a private room without notes or tapes; present for the International besides Precht, were International Vice President Whan and the International President, Mr. Berg, (R.T. p. 384, L. 7 per p. 386, L. 12). President Berg explained to Mr. Burke and Mr. Cummings that the informal conference was pursuant to a new article placed in the constitution at the last convention and that as a result in some, and perhaps many, of these cases, the charges had been resolved to the satisfaction of the parties involved. Cummings stated he thought it was a good idea (R.T. p. 386, L. 21 per p. 387, L. 10) Burke had clearly expressed his agreement (R.T. Suppl. p. 93, L. 19 per p. 94, L. 1; Plaintiff's Exhibit 20).

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4102

Mr. Burke took part freely and fully. On more than one occasion after Mr. Burke had expressed himself, International President Berg asked the charging party, Mr. Precht, whether he had heard anything which would lead him to consider withdrawal of the charges. The charging party was not persuaded to withdraw the charges (R.T. p. 388, L. 8 per 390, L. 20; R.T. p. 850, L. 10-17).

At the Union trial full opportunity was given for plaintiff to cross-examine and present evidence. Precht acted as the prosecutor; indeed he lost on the majority of the objections he made during the course of the trial. Besides Precht, Patton and Stender are the only International officials alleged to have had an "animus" against Burke (Answer to Defendants' Interrogatory No. 48 C.T. p. 116, p. 140). Stender resigned any role in the proceedings (Defendants' Exhibits E and F). There are no facts even alleged to show that any of these three wrongfully took any part or in any way influenced the proceedings, the findings or recommendation of the Trial Panel, or the subsequent action of the Executive Council.

The Report made by the International Trial Panel consisted in a full and accurate summarization of the evidence and positions taken by both sides. The Panel found that Burke as an appointed representative and a member of some 17 years standing should have been aware that his activity was contrary to the constitution and he should be prepared to accept the responsibility for his action. The Panel recommended a finding of guilty on all charges. It specifically considered Burke's motivation but found no mitigation therein (Plaintiff's Exhibit 23)

The Union Trial Panel's report was then referred along with copies of the trial transcript to each member of the Executive Council (except for Precht, the charging party,

and Stender who had been involved in the negotiation of the Master Shipyard contract and who had disqualified himself) for their review and vote by mail ballot. (Plaintiff's Exhibit 23). The charging party, Mr. Precht, testified without contradiction, that he had had nothing further to do with the matter after the Union trial (R.T. p. 851-852).

The evidence before the Trial Panel showed that Ernest Rae, the owner of the Dolores Press, surrendered all of the copies of the master collective bargaining agreement for the entire marine industry to Burke upon Burke's specific misrepresentation that he was authorized to pick up the agreements (Plaintiff's Exhibit 21, p. 16). There was a big rush to get the agreements out; the instructions for mailing were already given (*Id.* p. 16-17). The agreements were kept for over a day; criminal proceedings had to be initiated. (*Id.* p. 19)

Mr. Rotell of the Pacific Coast Metal Trades Council testified as to the importance and concern for the agreements from a time standpoint. (*Id.* p. 23-24). He, like Rae, made demands on Burke to return the agreements, all of which were ignored (*Id.*, p. 26-27). The agreements are those of the International Unions and Local Metal Trades Councils (*Id.*, p. 29).

Burke did not deny taking the agreements. Rather he testified that he had "no qualms" about what he had done (*Id.*, p. 73, L. 10), that it was the type of thing that sometimes has to be done in the labor movement to bring a matter to a head, without moral regard, and the chips would have to fall wherever they may (*Id.*, p. 73, 77-78), and he generally would do it again. The lower court found sufficient evidence to justify the union's findings and penalty.

VED

1968

CLARK

d &amp; Sibbett

4102

## OPPOSITION TO STATEMENT OF ISSUES

1. The lower court had the jurisdiction to take the action which it did.
2. Appellant was not deprived of the rights of speech and assembly within the Union guaranteed to him by 29 U.S.C. 411 (a)(1) and (2).
3. Appellant was not denied the safeguards against improper disciplinary action guaranteed to him by 29 U.S.C. 411 (a)(5).

## ARGUMENT

### **I. The Lower Court Had the Jurisdiction to Take the Action Which It Did.**

Section 412 of Title 29 gives the federal court jurisdiction to remedy violations of 29 U.S.C. 411. The lower court found no violations of Section 411 and properly granted judgment for defendants.

### **II. The Appellant Was Not Deprived of the Rights Guaranteed to Him by 29 U.S.C. 411 (a)(1) and (2).**

Appellees recognize that the Act, and especially Section 411 (a)(1) and (2) were

“designed to protect the rights of union members to discuss freely and criticize the management of their unions and the conduct of their officers.”

*Salzhandler v. Caputo*, 316 F. 2d 445, 448 (C.A. 2, 1963).

The real question is whether there is sufficient evidence to support appellant's conclusionary statements, such as, “It is clear that the International seized upon the incident [the taking of the agreements] as an opportunity to settle scores with Burke for his consistent opposition to its policies of subjugating Local 6 to its will. Such a reading of the record is the only one that will ‘wash’.” (Appellee's



Opening Brief, p. 14, L. 9). Appellant indeed states that the lower court was in error when it found that neither the Trial Panel nor the Executive Council were aware of or took into account "other things" besides the act of taking the agreements. Appellant's attempt, however, to challenge the court's finding is bereft of citations to specific evidence and merely conclusionary.

Appellant states that the "very record made before the Trial Panel (Exhibit 21) is replete with evidence that Burke was acting, throughout, contrary to the position of the International and it shows that it was this 'accumulation of events' that led to the charges" (Brief, p. 12, L. 25 f.). We are not told where in the 94 pages of the union trial transcript such evidence of other events is present, and indeed a reading of it will amply reveal that he was fully and fairly tried on the charge that he took the agreements, and nothing else. (cf. also report of Trial Panel, Plaintiff's Exhibit 23). Indeed Burke's counsel explicitly denied any intent to question the "integrity" of the Trial Panel (Plaintiff's Exhibit 21, p. 88, L. 24 f.). Whatever personal motivations may be assigned to the charging party, Mr. Precht, even *arguendo*, appellant points to no evidence that these motivations were made known to those who tried Burke or that they figured in the decision reached.

Appellant alleges that the International President "took jurisdiction away from the local", thus betraying a lack of objectivity. (Brief, p. 13, L. 3). There is no explanation of how this proves that appellant was in fact tried for other than taking the agreements. If appellant is seeking to raise a jurisdictional question, Section 3(a) of Article XVII of the International's Constitution (Plaintiff's Exhibit 1) deals with the Local Lodge's jurisdiction but that jurisdiction is expressly made subject to Section 3(b) by which International jurisdiction can be taken "if in the judgment of the

VED  
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4102

International President the circumstances warrant". The member is as much a member of the International as of the Local. President Berg informed Burke in writing on November 1, 1965 that the International was assuming jurisdiction under Section 3(b). The appellant's objection was preserved fully on the union trial record (Plaintiff's Exhibit 21, p. 8-12). Appellant inquired into the "warranting circumstances" through discovery. International Union's Answers to Interrogatories Nos. 11, 12, 13, and 14 filed June 8, 1966.

Finally, Appellant states that all the minutes of the Local which included motions made, and positions taken by Burke in opposition to the International were forwarded to the "International" and, "one may fairly infer", were known to the International "hierarchy". Appellant also refers to Burke's support of a former political opponent of Precht. Brief, p. 13, L. 14 f). We are not told which minutes, motions, positions or support; the record evidence is that the minutes were regularly sent to regional vice-president *Precht* (R.T. p. 868, 890, 916, 919, 920-921, 933); and even if arguendo, any such support or "positions" were known to the "hierarchy", appellant can point apparently to no evidence that the Trial Panel and Executive Council in fact *acted* on such knowledge or acted out of bias or other improper motives.

Appellant simply cannot supply the evidentiary bridge between speculation and proof. Indeed, he was charged, tried and convicted on the basis of having taken the agreements. The lower court concluded that the union's findings were sufficiently supported by the evidence (Judgment, C.T. p. 466). Burke *admits* he did what he was charged with doing. Immediately there is therefore *some* evidence, and the scope of review is satisfied. *Vars v. Boilermakers*, 215 F. Supp. 943, 47 L.C. Para. 18242 (D.C. Conn., 1963), *aff'd* 320 F. 2d 576, 47 L.C. Para. 18,334 (C.A. 2, 1963); *Parks v. I.B.E.W.*,

203 F. Supp. 288, 44 L.C. Para. 17,546 (D.C. Md., 1962), rev'd 314 F. 2d 886, 46 L.C. Para. 18,073 (C.A. 4, 1963), cert. den. 372 U.S. 976 (1963); *Rosen v. the District Council No. 9*, 198 F. Supp. 46, 43 L.C. Para. 17,074 (S.D.N.Y., 1961); *Phillips v. Teamsters Etc. Local 560*, 209 F. Supp. 768, 46 L.C. Para. 18,016 (D.C.N.J., 1962). State law, the precursor of the L.M.R.D.A., is in accord: *Madden v. Atkins*, 4 N.Y. 2d 283, 151 N.E. 2d 73, 34 L.C. Para. 71,491 (1958); *Fittipaldi v. Legassie*, 7 App. Div. 2d 521, 37 L.C. Para. 65,552 (N.Y., 1959); *Bush v. the International Alliance*, 55 Cal. App. 2d 357 (1942).

The trial below bore out that the charge (Plaintiff's Exhibit 16) and findings (Plaintiff's Exhibit 23) were supported by evidence. Burke was a member who by his own testimony was looked to for leadership (R.T. p. 278 f.). He dishonestly, unlawfully and dishonorably misused his responsible position to misappropriate union agreements which were signed and paid for by the International, the International which was the biggest and most directly involved Union in the Pacific Coast Metal Trades Council (R.T. p. 949). He did not give the International an opportunity to respond to the legal analysis of attorney Gladstein (Plaintiff's Exhibit 15) which had only been mailed on October 7, 1965. He actually planned and consulted with another before taking the agreements (R.T. Suppl., p. 63, L. 17-19; p. 69, L. 8 per p. 70, L. 7). He just left them in a car overnight (R.T. p. 473, L. 18); and he steadfastly kept them even when faced with a threat of criminal action (Plaintiff's Exhibit 21, p. 18, L. 19). When they were finally returned which was only after criminal proceedings were initiated, the printer had to spend two days reproofing, and they were delayed at least that long in being mailed (R.T. p. 335, L. 18 per p. 336, L. 7; p. 324, L. 10). Burke told the Trial Panel he had "no qualms" about what he had done

VED

1962

CLERK

d &amp; Sibbett

4102



(Plaintiff's Exhibit 21, p. 73, L. 10). It cannot be seriously contended that this was conduct consistent with the duties, obligations and fealty of a member or a responsible act toward the institution any more than it was an exercise of "free speech" under Section 411 (a)(1) or (2).

**III. The Appellant Was Not Denied the Rights Guaranteed to Him by 29 U.S.C. 411 (a) (5).**

Section 411 (a) (5) mandates (A) written specific charges, (B) a reasonable time to prepare a defense, and (C) a full and fair hearing. On appeal we understand appellant to be limiting himself to (C) alone.

While a full and fair hearing has to do with those rudimentary rights of fair play inherent in any hearing or, as Appellant puts it, a hearing which comports with minimal standards of due process and a hearing by an unbiased and disinterested tribunal, the lower court did not find a denial of such rights.

The appellant relies again on its allegation that the whole trial was but a "pretext" for a trial on an accumulation of other events (Brief, p. 16). Appellees would make the same response as heretofore made in this Brief: there is *no* evidence to support Appellant's conclusions.

The Appellant also relies on the cover letter of January 4, 1966 by which President Berg referred the panel report (Plaintiff's Exhibit 23) and individual copies of the union trial transcript (Plaintiff's Exhibit 21) to each member of the International Executive Council (except Precht & Stender) for review and voting by mail ballot. This letter is Defendants' Exhibit H. Appellant contended below, and contends here, that the letter was in effect an "order" for a directed verdict. Appellees submit, as they did below, that all the trial court had to do was *read* the full letter.

The court did so (Judgment, C.T. p. 475 f.), and its reading of the plain language of the letter is not clearly erroneous.

In the letter, President Berg stated he was in full accord with the Panel's findings. The International President is a member of the Executive Council and thereby entitled to indicate his point of view as fully as any other Council member (Plaintiff's Exhibit 1, Article V, Section 1 f.). He asked the members to review the record "very carefully". He explained what a "yes" vote would mean and cautioned that this would be expulsion. He explained what a "no" vote would mean, and told the members that any other vote besides "yes" or "no" would have to be fully explained.

The tenor of Appellant's argument suggests that there is something inherently unlawful or suspicious about a union trial. It is a mere suggestion without foundation in the record. The mere fact that Appellant's accuser was an influential union official does not support a holding that Plaintiff was denied a fair hearing. *Cornelio v. Metropolitan District Council Etc.*, 243 F. Supp. 126 (E.D. Pa., 1965), aff'd 358 F.2d 728 (C.A. 3, 1966). There is nothing in the legislative history of the Act to justify such a suggestion. Indeed Section 101(7) of S. 1137 by Senator McClellan, as referred, had originally called for not only a full and fair hearing but also a "final review on a written transcript of the hearing, by an impartial person or persons. . . ." 105 Daily Cong. Rec. 2237, February 19, 1959, I *Legis. History of the L.M.R.D.A. of 1959*, at p. 270. The Senator offered the same language as an amendment to S. 1555, as part of the Bill of Rights amendment, Title I. 105 Daily Cong. Rec. 5810, II *Legis. History, supra*, at p. 1102. Congress did not in fact adopt the idea of review boards retaining original responsibility in the hands of the labor organization.

VED

1962

CLERK

d &amp; Sibbett

4102

The Court below found that one of the union's findings, viz. that the charged act violated Section 1(e) of Article XVII of the International's Constitution was not supported by any evidence (Judgment, C.T. p. 471-472). Appellant now wants the case sent back for at least reassessment of the penalty in light of that finding.

While Appellees do not agree with the lower court's determination respecting Section 1(e), Appellees do agree that it makes no difference. Appellant was charged with taking the agreements in violation of certain enumerated Sections of the Constitution (Plaintiff's Exhibit 16). The fact that the charge is not found to be a violation of one of the enumerated subsections does not affect the intrinsic validity of the charge itself. Indeed the lower court specifically found that the violations of the other provisions of the Constitution fully justified the penalty imposed. (Judgment, C.T. p. 472). Moreover, if there is evidence to support the findings of the union, the court has no jurisdiction under the Act simply to "reweigh" the penalty. While Appellant has not given us any citations, Appellant's contention confuses another fact situation where one or two of *many* different acts charged are found to be without support in the evidence or contrary to law; that is not this case. Compare *Graham v. Soloner*, 220 F. Supp. 711 (D.C. Pa., 1963).

### CONCLUSION

The findings of the lower court are not clearly erroneous and the judgment below should be affirmed.

Dated: November 14, 1968

LAW OFFICES OF CHARLES P. SCULLY  
CHARLES P. SCULLY  
DONALD C. CARROLL  
JOHN J. BLAKE  
By DONALD C. CARROLL  
*Attorneys for Defendants*

UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT

RECEIVED  
OCT 14 1968

URKE, )  
Appellant, )  
)  
ONAL BROTHERHOOD OF BOILER- )  
IRON SHIPBUILDERS, BLACK- )  
ORGERS and HELPERS, and )  
6 THEREOF, )  
Appellees. )

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WM. B. LUCK, CLERK

NO. 22486

APPELLANT'S OPENING BRIEF

FILED

OCT 14 1968

W. B. LUCK, CLERK

Richard Gladstein  
Norman Leonard  
Gladstein, Andersen, Leonard & Sibbett  
1182 Market Street  
San Francisco, California 94102  
626-3077

Attorneys for Appellant



JOHN F. BURKE,

-VS-

Appellees.

APPELLANT'S OPENING BRIEF

Richard Gladstein  
Norman Leonard  
Gladstein, Andersen, Leonard & Sibbet  
1182 Market Street  
San Francisco, California  
626-3077

Attorneys for Appellant



## I N D E X

	<u>Page</u>
Statement of issues presented for review. . . .	1
Statutes involved . . . . .	2
Statement of the case . . . . .	3
Statement of the facts. . . . .	4
Argument. . . . .	11
I. The district court had jurisdiction of the action . . . . .	11
II. The expulsion of appellant from appellee unions was contrary to the provisions of 29 U.S.C.A. 411(a)(1) and (2) . . . . .	12
III. The expulsion of appellant from appellee unions was contrary to the provisions of 29 U.S.C.A. 411(a)(5) . . . . .	15
Conclusion. . . . .	18





# TABLE OF AUTHORITIES CITED

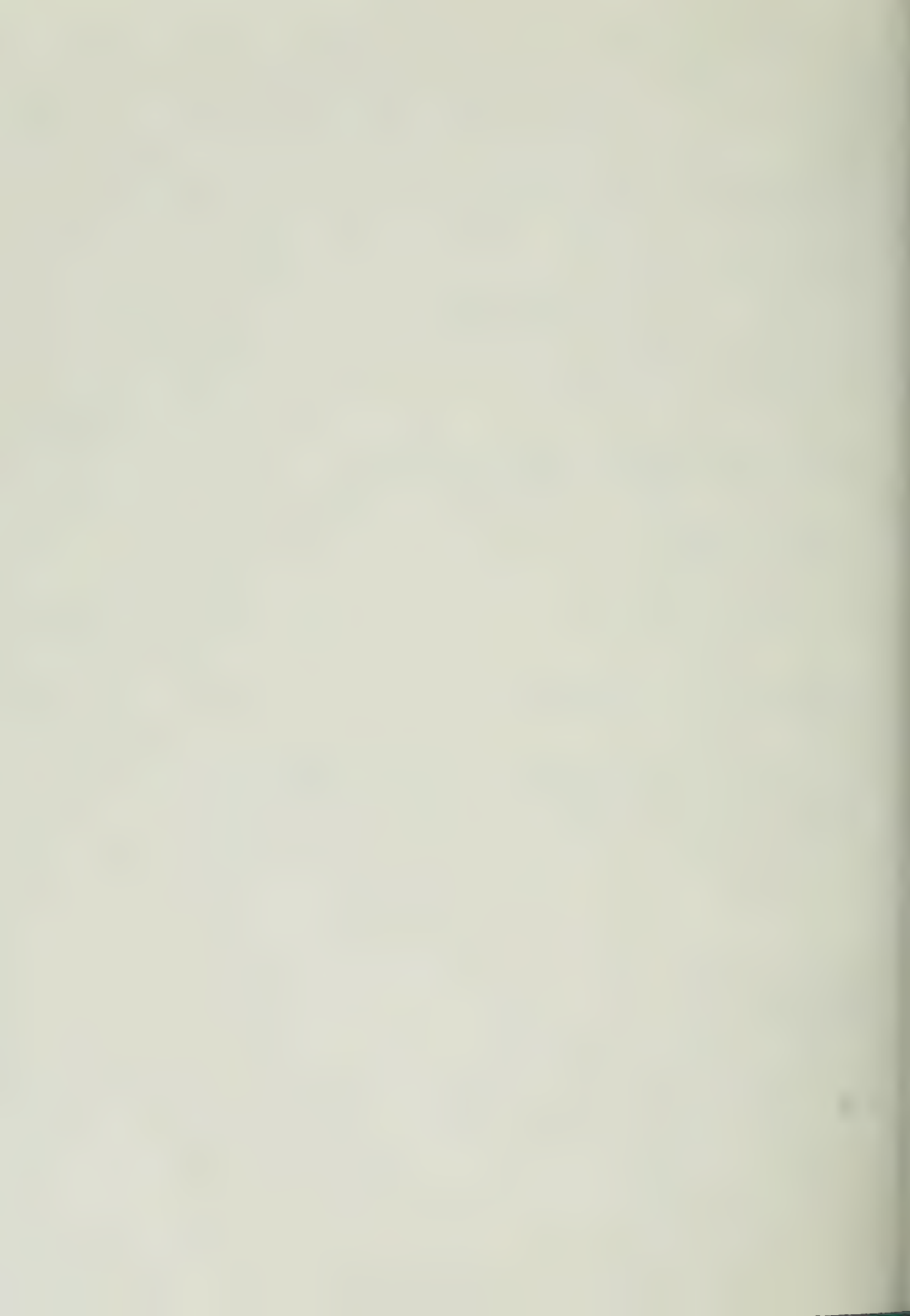
## CASES

	<u>Page</u>
Boilermakers Union v. Rafferty, 347 F. 2d 307. . . . .	11, 15
Carroll v. Local 802, 235 F. Supp. 161 . . . . .	15
Leonard v. M.I.T. Employees' Union, 225 F. Supp. 937 . . . . .	16
Machinists Union v. King, 335 F. 2d 340. . . . .	11, 12
Parks v. International Brotherhood of Electrical Workers, 203 F. Supp. 288 . . . . .	17
Reilly v. Hogan, 32 NYS 2d 864. . . . .	18
Salzhandler v. Caputo, 316 F. 2d 445. . . . .	11, 12 14, 15
United States v. Gypsum Co., 333 U.S. 364 . . . . .	14
United States v. Ramos, F. 2d (9 Cir., April 10, 1968; rehearing denied July 25, 1968), No. 21824, slip opinion p. . . . .	14

## CONSTITUTIONS

### International Constitution

Article XVII, Section 3(b). . . . .	9
Article XVII, Section 2(b). . . . .	9



STATUTES

Labor Management Reporting and  
Disclosure Act of 1959

29 U.S.C.A. 401, et seq. . . . .	1, 11
29 U.S.C.A. 411(a)(1) . . . . .	2, 12, 18
29 U.S.C.A. 411(a)(2) . . . . .	2, 12, 18
29 U.S.C.A. 411(a)(5) . . . . .	2, 3, 15, 18
29 U.S.C.A. 412 . . . . .	3

RULES

F.R.C.P. 52(a) . . . . .	14
--------------------------	----

ARTICLES

Summers, LEGAL LIMITATIONS ON UNION DISCIPLINE, 64 Harvard Law Review 1049. . . . .	15
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UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

JOHN F. BURKE,

)

Appellant,

)

NO. 22486

-vs-

)

INTERNATIONAL BROTHERHOOD  
OF BOILERMAKERS, etc., et al., )

APPELLANT'S OPENING BRIEF

Appellees.

)

---

This is an appeal from a judgment for the defendants entered by the United States District Court for the Northern District of California in a suit in which plaintiff (appellant here) challenged the action of the defendant unions in preventing him from running for office and in expelling him from membership therein, as contrary to the provisions of Subchapter 2 (Bill of Rights of Members of Labor Organizations) of the Labor-Management Reporting and Disclosure Act of 1959, 29 U.S.C.A. 401, et seq.

STATEMENT OF ISSUES PRESENTED FOR REVIEW

(1) Did the District Court have jurisdiction to review the actions of the defendant unions?



(2) Was plaintiff deprived of the rights of speech and assembly within the unions guaranteed to him by 29 U.S.C.A. 411(a)(1) and (2)?

(3) Was plaintiff denied the safeguards against improper disciplinary action guaranteed to him by 29 U.S.C.A. 411(a)(5)?

#### STATUTES INVOLVED

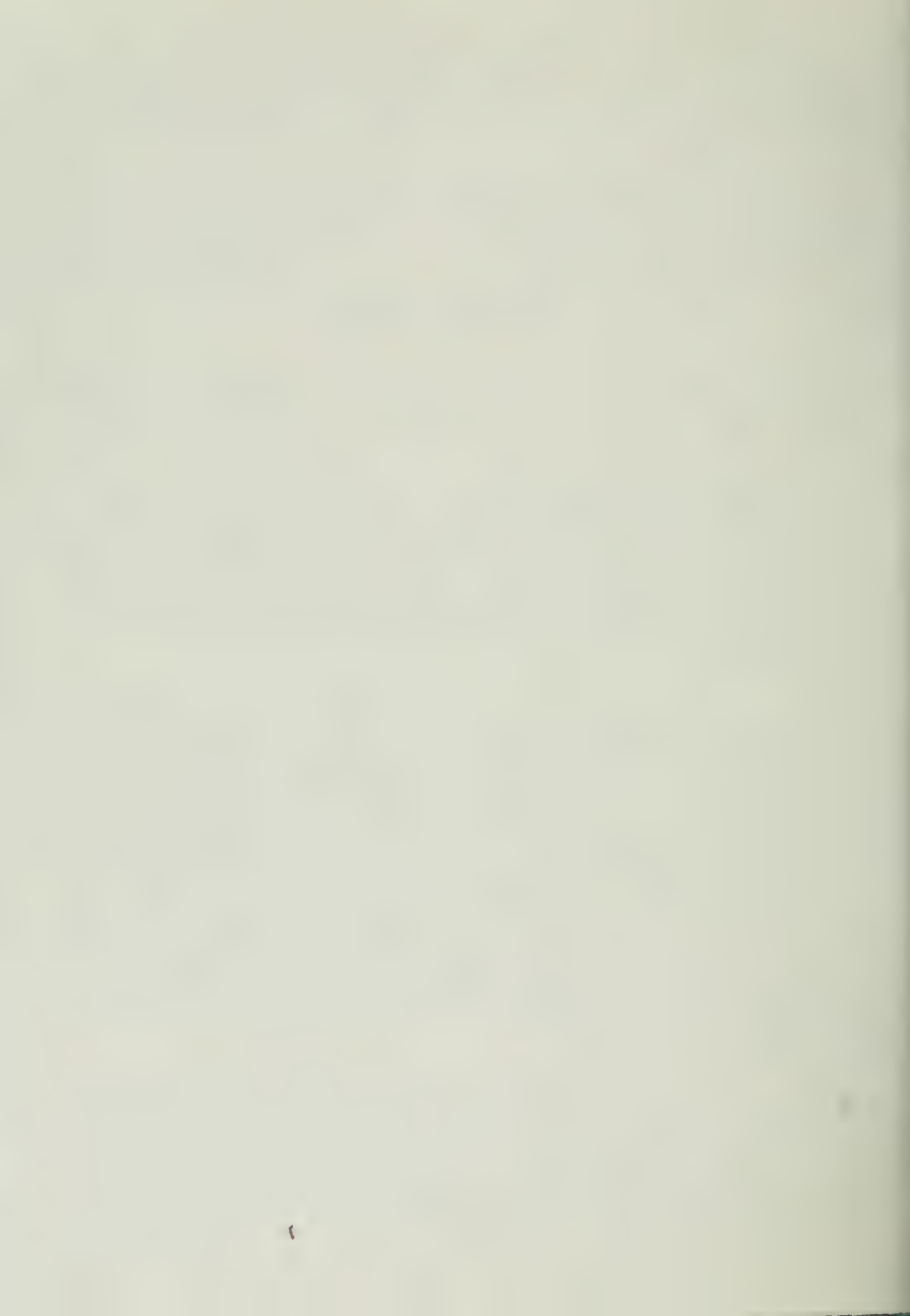
Section 101 of the Labor-Management Reporting and Disclosure Act of 1959 (29 U.S.C.A. 411) reads in pertinent part as follows:

"(a)(1) Equal rights. -- Every member of a labor organization shall have equal rights and privileges within such organization to nominate candidates, to vote in elections or referendums of the labor organization, to attend membership meetings, and to participate in the deliberations and voting upon the business of such meetings, subject to reasonable rules and regulations in such organization's constitution and bylaws." (29 U.S.C.A. 411[a][1])

"(2) Freedom of speech and assembly. -- Every member of any labor organization shall have the right to meet and assemble freely with other members; and to express any views, arguments, or opinions; and to express at meetings of the labor organization his views, upon candidates in an election of the labor organization or upon any business properly before the meeting, subject to the organization's established and reasonable rules pertaining to the conduct of meetings: PROVIDED, That nothing herein shall be construed to impair the right of a labor organization to adopt and enforce reasonable rules as to the responsibility of every member toward the organization as an institution and to his refraining from conduct that would interfere with its performance of its legal or contractual obligations." (29 U.S.C.A. 411[a][2])

"(5) Safeguards against improper disciplinary action. -- No member of any labor organization may be fined, suspended, expelled, or otherwise disciplined except for nonpayment of dues by such organization or by any officer thereof unless such member has been (A) served with written specific charges; (B) given a reasonable time to prepare his defense; (C) afforded





a full and fair hearing." (29 U.S.C.A. 411[a][5])

"412. Civil action for infringement of rights; jurisdiction. Any person whose rights secured by the provisions of this subchapter have been infringed by any violation of this subchapter may bring a civil action in a district court of the United States for such relief (including injunctions) as may be appropriate. Any such action against a labor organization shall be brought in the district court of the United States for the district where the alleged violation occurred, or where the principal office of such labor organization is located." (29 U.S.C.A. 412)

#### STATEMENT OF THE CASE

The action was instituted in the court below on April 27, 1966 (CT 1),<sup>1/</sup> by the filing of a complaint for injunctive relief.

The complaint alleged that in violation of the right guaranteed to him by the aforesaid statutes plaintiff had been wrongfully refused permission to run for union office and prayed for an order directing that he be permitted to run for office. Later, by a supplemental complaint (CT 70), plaintiff raised the question of his expulsion from membership and prayed that he be reinstated therein.<sup>2/</sup>

An answer was filed to the complaint (CT 7) and responses

1/ The transcript of record consists of the clerk's record on appeal (herein as "CT"), the reporter's transcription of the testimony taken at the trial below (cited herein as "RT").

2/ Plaintiff had been "indefinitely suspended" from membership on January 12, 1966 (CT 13). He had brought suit in the courts of California as a result of which he was ordered reinstated to membership but he was not given the right to run for union office (CT 28-29). It was to vindicate the latter right that he initially filed the suit below. When it was brought to the state court's attention that this federal suit had been filed, the state court judge vacated his order for even the limited relief he had previously granted, and, by the supplemental pleading here, plaintiff raised also the question of his expulsion from membership.



were filed to the orders to show cause (CT 47)<sup>3/</sup>.

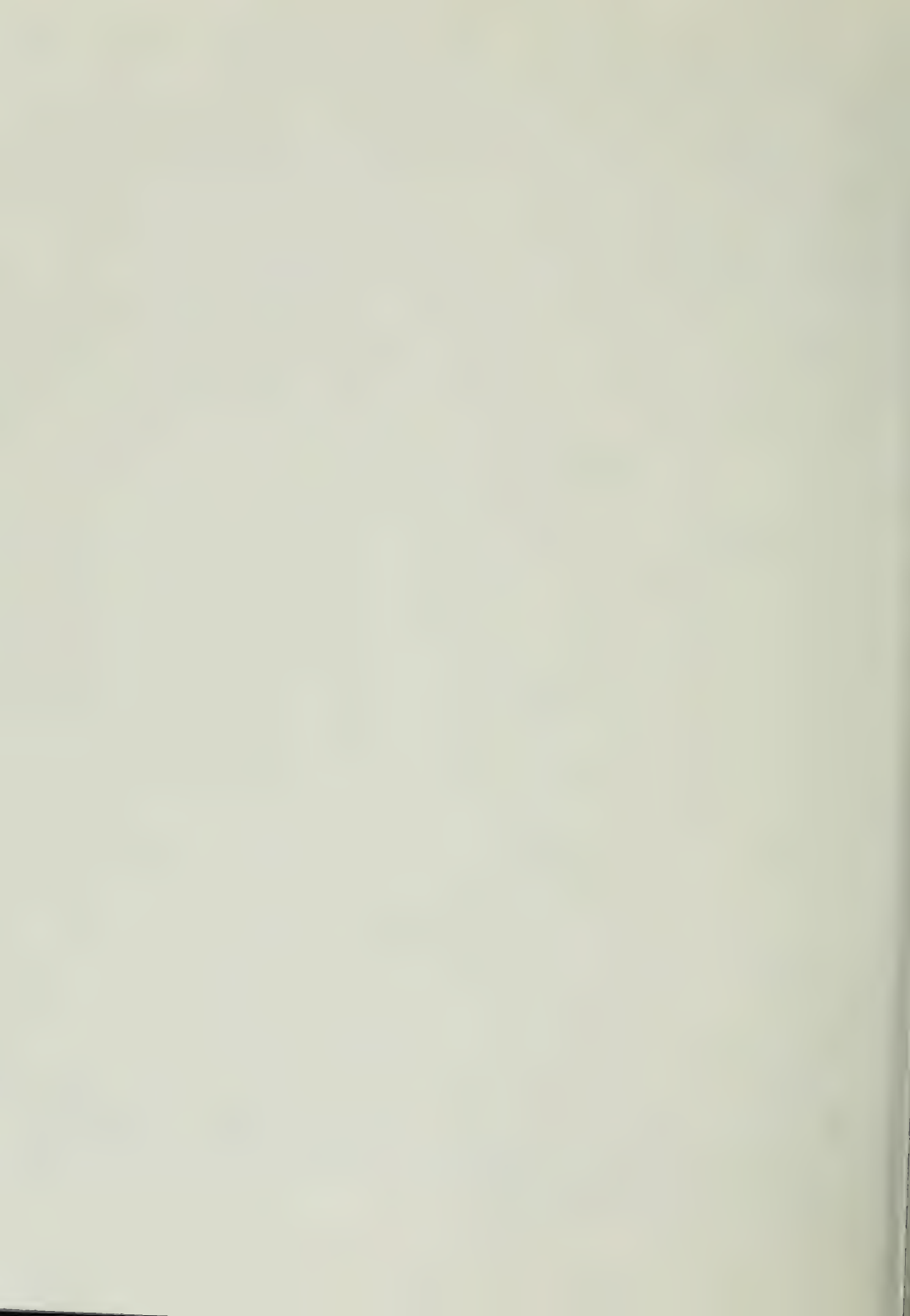
Thereafter extensive discovery proceedings were undertaken on both sides. Indeed, much of the clerk's transcript consists of evidence developed this way. Trial was had at which both oral and documentary testimony was adduced: the reporter's transcript runs to about 1100 pages. After the submission of the matter, a judgment was entered for the defendants (CT 462), and a timely notice of appeal to this Court was filed (CT 521).

#### STATEMENT OF THE FACTS

John Burke, now in his middle forties, had been a member of the Boilermakers Union since his late teens. During the course of a quarter of a century he became active in the affairs of the union and remained in it throughout, except for a period during and following World War II, when he served in the Merchant Marine and was a member of the Sailors' Union. Beginning in 1950, his activity in San Francisco Local 6 of the Boilermakers' Union increased: he participated in committee work; he was elected as a delegate to various conventions and conferences; he became a union negotiator in collective bargaining meetings with employers; he ran for union office. In 1963 he was appointed Assistant Business Manager of Local 6, a

---

3/ Another action had also been filed in the District Court by certain members of defendant unions claiming that their rights to nominate and vote for plaintiff herein had been infringed by the action of defendants. That proceeding, however, is not now before this Court.



position which he held until the expulsion which is the subject matter of this action (RT 277-290).

During the years of his activities in the union, plaintiff was one of the leaders of a group of men in the local who were attempting to keep it free from the control and domination of the International, headquartered at Kansas City, and in the last few years this situation led to a substantial degree of hostility between plaintiff and the leaders of the International Union.

In the trial judge's opinion appears what he calls a "vignette" depicting the "considerable friction" between appellant and International Vice-President Precht (CT 413). This includes opposition between appellant and the International on at least these specific issues: whether the books of the local were to remain open or closed; whether a local committee should determine who would get high-paying jobs; whether a credit union could function in the local union hall; whether the local should subscribe to a labor newspaper for its members; and, perhaps most important of all, whether the local should remain independent and autonomous or be placed under a trusteeship to be administered by Precht.

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4 / Technically the recommendation of the union trial panel was that Burke be "suspended from membership in the International Brotherhood and from all rights and privileges pertaining thereto" (CT 269). As the International President observed when forwarding this recommendation to the Executive Council with his "full accord", this was "in effect expulsion of John J. Burke from the International Brotherhood" (EX. H; CT 475).





1 The trial judge implicitly acknowledged that these matters  
2 were not unimportant in determining whether, in the ensuing union  
3 proceedings, Burke received the protections, both substantive and  
4 procedural, to which he was entitled under the provisions of the  
5 federal statute, but he erroneously concluded that no persons  
6 other than Precht were involved, or that the trial panel or  
7 Executive Council took these matters into account.

8 The evidence, however, shows that Berg, the International  
9 President, was well aware of Burke's opposition to the Inter-  
0 national's and Berg's position on most of these issues; and that  
1 Burke was an outspoken opponent of the International's trustee-  
2 ship scheme. All minutes of the local -- which contain the  
3 record of Burke's activities -- were sent to the International.  
4 Berg was present at an informal meeting prior to the formal  
5 hearing against Burke at which Precht stated that the real basis  
6 for the proceeding against Burke was not the ostensible basis  
7 of the charges against him (his brief removal of the contracts),  
8 but was "an accumulation of events that had transpired involving  
9 Brother Burke as a representative of Local 6" (Ex. 21, page 93).  
0 Berg, the chief executive officer of the International, further-  
1 more told each member of the Executive Council, the final judges  
2 in this case, that he was "in full accord" with the recommenda-  
3 tion to expel plaintiff (Ex. H; CT 475), and that any vote  
4 other than a yes or no -- i.e., a vote to mitigate the penalty  
5 or grant leniency -- "will have to be fully explained" (ibid).  
6 It is not surprising therefore that the Executive Council voted





to expel Burke.

The immediate background leading to Burke's expulsion was this. In June and July of 1965 negotiations took place between the employers of shipbuilders and ship repairmen, and the Pacific Coast Metal Trades Council, an organization consisting of the concerned craft unions, one of which was Local 6 of the Boilermakers Union.

In prior years each constituent local, irrespective of the number of men affected, had one vote. So that a local of 100 members or less cast a vote equal to that of a local like Number 6, which had almost 2,500 members (CT 150-151; RT 206, 979). In 1963, to remedy this situation, new rules were adopted to permit a "one man one vote" referendum (CT 150-151; RT 110, 207; Ex. 3, pp. 21-23). The proposed 1965 agreement, therefore, was to be submitted to the men, not their locals, for their acceptance or rejection.

After various of the affiliated locals reported acceptance, rumors of substantial irregularities in the voting procedures employed by some of the locals came to the attention of Burke and other representatives of Local 6 -- which had voted not to accept the proposed contract. Burke was instructed by his superior, Edgar Rainbow, the Business Manager of Local 6, to investigate these rumors. Substantiation was found and protests were lodged both by Rainbow and by Burke with the appropriate officers of the Metal Trades Council as well as with the officers of the AFL-CIO and the Boilermakers International. All



of this, of course, came to the attention of the International and President Berg. No responses were ever forthcoming from the Metal Trades Council or the AFL-CIO.

Burke and Rainbow and Local 6 retained counsel to advise them on these matters; a legal analysis was made, submitted to the local, and by it forwarded to the Boilermakers International Union, which, after the events at bar but not before, ordered Local 6 to cease and desist from further pursuing the matter. Burke immediately obeyed this order.

In the meantime, however, faced with the prospect of there being put into effect a three-year contract covering thousands of men, and in the face of evidence that the contract had never been properly ratified, and having had no response from any source concerning the claims of fraudulent reporting of referendum returns, Burke, acting in what he believed to be the best interests of the men he had been elected to represent, went to the office of the printer of the contracts and removed them for a period of about twenty-four hours. The court below found

"John Burke felt, at the time of the taking of the contracts, that by acquiring possession and possibly delaying or interfering with the final signing of the agreement that he could precipitate a fruitful investigation of the rumored irregularities. He thought he was acting in the interests of the membership of Local 6." (CT 463)

Burke returned the contracts the next day. Neither his immediate superior, Rainbow of Local 6, nor any other Local 6 representative or member, nor Thomas Rotell of the Metal Trades



Council, the individual most directly concerned with the contracts, nor anyone else locally saw fit to pursue the matter further. But International Vice-President Precht of Denver, Colorado,<sup>5/</sup> filed charges against Burke. Precht specifically requested that those charges be heard by the International Union rather than by Local 6 (Ex. 21, p. 8). International President Berg promptly complied and had the International, rather than the local, assume jurisdiction (ibid 3), although he did not state what were the circumstances that warranted this departure from local autonomy in this case (CT 67 [International Constitution, Art. XVII, Section 3(b), p. 73]), and although Local 6 was fully equipped and competent to handle the matter itself (RT 158-159).

The Constitution provided that before a formal trial took place there should be an informal conference to give the parties an opportunity to resolve the matter (CT 67 [International Constitution, Art. XVII, Section 2(b), p. 72]). The trial body appointed by the International President, consisting of two of Precht's co-International Vice-Presidents, apparently realizing that Precht was not about to let Burke "off the hook", set the trial for the very day after the International President had scheduled the informal conference.

---

<sup>5/</sup> Precht not only recommended, over Burke's opposition, that he (Precht) be made a trustee over Local 6, but Precht's own history in the Boilermakers' Union shows that his principal function is interfering with the autonomous operation of locals throughout the country -- e.g., Denver, Colorado (RT 860); Chicago, Illinois (RT 865); Philadelphia, Pennsylvania and Groton, Connecticut (RT 865-866).





1 Even though Burke attempted to explain why he had tem-  
2 porarily taken the contracts, Precht was not to be dissuaded  
3 from pressing forward, because, as he stated, in the presence  
4 of International President Berg, the charges "were an accumula-  
5 tion of events that had transpired involving Brother Burke".

6 Burke's objection to the International's assumption of  
7 jurisdiction (Ex. 21, pp. 9-11), was overruled, not by the trial  
8 panel, but by the International President (ibid 12). The  
9 trial panel acknowledged that it could not "handle" any appeal  
0 from the International President's decision on jurisdiction  
1 (ibid 12) -- so much for the independence of the trial panel  
2 which recommended Burke's suspension!

3 At the hearing the trial panel heard that Burke had taken  
4 the contracts -- which he did not (and does not now) dispute.  
5 It also heard him and others explain why. In its recommendation  
6 of expulsion, it recognized that Burke was "motivated by a de-  
7 sire to bring about an investigation and correction in the  
8 procedure", but said that this was not "acceptable" to it (CT  
9 269). It said that, whether or not Burke was "motivated by a  
0 desire to best represent the membership of Local Lodge No. 6",  
1 was not the question before it. It therefore recommended ex-  
2 pulsion; its recommendation went to all the other Vice-  
3 Presidents <sup>6/</sup> -- colleagues of Precht -- with the "full"

4  
5 6/ One Vice-President, Stender, who had participated in the  
6 negotiations for the contracts, disqualified himself and  
Precht, as the charging party, obviously was disqualified. Sev-  
eral of the Vice-Presidents were in financial debt to the





concurrence of the International President and with an admonition that a vote in mitigation would have to be fully explained. Burke was expelled. This litigation follows.

### ARGUMENT

#### I. THE DISTRICT COURT HAD JURISDICTION OF THE ACTION

We think there is no dispute between the parties that the district court was correct (CT 466-468) in asserting jurisdiction here. The Bill of Rights of Members of Labor Organizations (29 U.S.C.A. 401, et seq., supra, p. 2) specifically invests a district court with jurisdiction to remedy deprivations of the rights it guarantees. Boilermakers Union v. Rafferty, 348 F.2d 307 (CA 9;1965); Machinists Union v. King, 335 F. 2d 340 (CA 9;1964), cert. den. 379 U.S. 920 (1964); Salzhandler v. Caputo, 316 F. 2d 445 (CA 2;1963), cert. den. 375 U.S. 946 (1963).

Since the district court found with appellant on this point and since we do not understand appellees to contest the jurisdiction of the district court, we shall say no more about the matter at this time.

---

6 (continued) / International. So much for the independence of the Executive Council which ratified Burke's expulsion with knowledge that the President was in "full accord" therewith and that a vote for a lesser penalty would have to be "fully explained".



II. THE EXPULSION OF APPELLANT FROM APPELLEE UNIONS WAS  
CONTRARY TO THE PROVISIONS OF 29 U.S.C.A. 411(a)(1) AND (2)

29 U.S.C.A. 411(a)(1) and (2) provide in substance that a member of a labor organization shall have the right democratically to participate in the life of the union and shall suffer no discipline as a result thereof. This is true whether he is disciplined in his status as a "member" (Salzhandler v. Caputo, supra, or in his status as an "officer" (Machinists Union v. King, supra).

The record, summarized above, is clear that appellant was punished as the result of "an accumulation of events" which brought him into the bad graces of the International. Those events we have recited above; they add up to the fact that appellant was, on a variety of issues, in opposition to the International and was struggling for the autonomy of Local 6 and for the democratic rights of its members.

The district court acknowledged (CT 474) that "[h]ad the panel considered Burke's prior record of opposition", appellant would be able to assert that such action "deters a union member's right to free speech as granted by Section 411(a)(2)". But it concluded, erroneously we submit, that neither the panel nor the Executive Council "was aware of it or took it into account" (CT 473-474).

With respect, we submit that this is reading the record with blinders on. For example, the very record made before the trial panel (Exhibit 21) is replete with evidence that Burke



was acting, throughout, contrary to the position of the International and it shows that it was this "accumulation of events" that led to the charges. Furthermore, the acquiescence by the International President in the suggestion of Precht that the International take jurisdiction away from the local, the International's President's notification to Precht's co-Vice-Presidents that he was in "full accord" with the recommendations of the trial panel, his requirement that a vote in mitigation be fully explained -- all demonstrate that the International hierarchy (of which the Executive Council was an integral part) was not some Olympian Jove sitting in objective judgment on Burke, but was a party with a vital interest in the outcome of the proceedings.

Concerning the International's prior knowledge of Burke's consistent opposition to its policies, it is necessary to recall that since at least 1963, when Precht began to "supervise" the affairs of Local 6 -- if not earlier -- all minutes of the local, which included motions made, and positions taken, by Burke in opposition to positions advanced by the International, were forwarded to the International, and, one may fairly infer, were therefore known to the International hierarchy. Burke's support of Cummings in the latter's effort to unseat International Vice-President Precht at the 1965 Convention of the International was not unknown to the International President or the International Vice-Presidents who made up the Executive Council which passed judgment upon Burke. The actions of





such a "tribunal" need to be scrutinized with the greatest of care.<sup>7/</sup>

Nor should the district judge have ignored the fact that the Local 6 official, Rainbow, and the Metal Trades Council official, Rotell, most directly involved with the contracts, did not deem the incident sufficiently significant to merit the filing of charges -- considering the brief period the contracts were out of the possession of the printer and the unselfish motivation of Burke in taking them. It is clear that the International seized upon the incident as an opportunity to settle scores with Burke for his consistent opposition to its policies of subjugating Local 6 to its will. Such a reading of the record is the only one that will "wash". The implied findings of the district court to the contrary are "clearly" erroneous" (F.R.C.P. 52[a]), and should not be sustained by this Court. United States v. Gypsum Co., 333 U.S. 364, 395 (1945); United States v. Ramos, \_\_F. 2d\_\_, (9 Cir., April 10, 1968; rehearing denied July 25, 1968, No. 21824 slip opinion P. \_\_).

The law on the subject is clear.

---

<sup>7/</sup> "But the union is not a political unit to whose disinterested tribunals [a member] can look for an impartial review of his 'crime'. . . The Trial Board in the instant case consisted of union officials not judges." Salzhandler v. Caputo, 316 F. 2d 445, 450 (2 Cir., 1963), cert. den. 375 U.S. 946 (1963).





"The [Labor Management Reporting and Disclosure] Act of 1959 was designed to protect the rights of union members to discuss freely and criticize the management of their unions and the conduct of their officers. The legislative history and the extensive hearings which preceded the enactment of the statute abundantly evidence the intention of the Congress to prevent union officials from using their disciplinary powers to silence criticism and punish those who dare to question and complain." (Salzhandler v. Caputo, supra, 316 F. 2d at 448)

Salzhandler v. Caputo, supra, was cited with approval and followed by this Court in Boilermakers v. Rafferty, 348 F. 2d 307, 311-312(9 Cir., 1965).

III. THE EXPULSION OF APPELLANT FROM APPELLEE UNIONS WAS CONTRARY TO THE PROVISIONS OF 29 U.S.C.A. 411(a)(5)

29 U.S.C.A. 411(a)(5) provides that no member of a labor organization may be suspended, expelled or otherwise disciplined unless he has been afforded a full and fair hearing, and that any provision of a union's constitution or by-laws to the contrary shall be of no force and effect.

A full and fair hearing means a hearing which comports with minimal standards of due process and at the very least means a hearing by an unbiased and disinterested tribunal. Carroll v. Local 802, 235 F. Supp. 16, (SD, NY; 1963). See Summers, LEGAL LIMITATIONS ON UNION DISCIPLINE, 64 Harvard Law Review 1049, at 1082:

"The organizational structure of unions is wholly lacking in anything equivalent to an independent judiciary. On the contrary, the discipline procedure tends strongly to be dominated by the officers and groups in power. This creates the greatest single



danger in the area of union discipline -- the frequent lack of a completely unbiased tribunal. The courts have shown some awareness of this and have given protection against any discoverable taint of bias.

Bias may take the flagrant forms of judging the case before it is heard, or deliberately using discipline as a device to eliminate disliked members. . . Bias may also take the less obvious form of combining the prosecuting and judicial functions . . . " (underlining supplied).

A full and fair hearing means that the charges on which the discipline is ostensibly based were not merely a pretext to get rid of a union member because he was a critic of the union's officers and their policies. Leonard v. M.I.T. Employees' Union 225 F. Supp. 937 (D.,Mass; 1964).

Here the record clearly shows that the Executive Council -- co-Vice-Presidents of the accuser Precht -- was, under the direction of International President Berg, compelled to vote against appellant and, except on the condition of "fully" explaining his vote, no member of the Executive Council was free to vote for any penalty short of expulsion. The record further shows that the charges upon which the disability meted out to appellant were ostensibly based, were indeed a pretext and that it was the accumulation of other events -- appellant's long-standing criticism of the union's officers and their policies -- upon which the discipline was in fact imposed.

Finally, even as to those charges, the district court was compelled to find that the most serious of them -- "conduct contrary to and detrimental to the welfare or best interests of



the International Brotherhood or a subordinate body" -- "is not supported by the evidence" (CT 492). Of this charge, the Court said:

" . . . The record is absolutely barren of one shred of evidence of the consequences or repercussions of Burke's conduct which can be said to be detrimental to the best interests of the International or Local 6" (ibid).8/

Since the Executive Council's extreme penalty of expulsion was based upon the charges in toto, it would seem that this finding by the district court should, at the very least, require the matter to be sent back for reassessment of the penalty without consideration of this serious, but untrue, charge. Under the circumstances of this case, it is submitted that it is unreasonable to permit to stand the most serious sanction possible when the record shows that the most serious charge made was not proven.

"Nevertheless, where a particular sanction is clearly permitted by the constitution of a union, the courts should be slow in substituting their judgment for that of the responsible union officials in determining whether or not it is too severe. Where, however, the imposition of a particular sanction is clearly unreasonable under all the circumstances and unjust to individual members of the offending union, the courts should not hesitate to exercise whatever jurisdiction they may have to correct the injustice." (Parks v. International Brotherhood of Electrical Workers, 203 F. Supp. 288, at 311) (underlining supplied).

---

8 / This finding accords with the International's admission in answers to interrogatories that it had no knowledge that Burke's actions interfered with the International's performance of its obligations (CT 253).





"The factor that the extreme penalty was meted out to the plaintiff, adds weight to the suggestion the plaintiff was punished for his opposition to the regime rather than for slandering the union -- that the alleged slander was the excuse and not the reason for the expulsion." (Reilly v. Hogan, 32 NYS 2d 864, aff'd 36 NYS 2d 423; leave to appeal denied, 37 NYS 2d 426).

#### CONCLUSION

The foregoing has established (1) that the court below had jurisdiction of the action; (2) that the appellant was deprived of substantive rights guaranteed to him by 29 U.S.C.A. 411(a) (1) and (2); (3) that appellant was deprived of procedural rights guaranteed to him by 29 U.S.C.A. 411(a)(5).

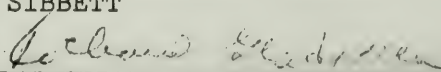
For the foregoing reasons, the judgment below should be reversed.

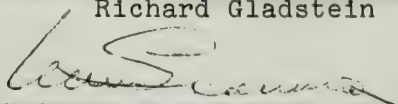
DATED: October 14, 1968.

Respectfully submitted,

GLADSTEIN, ANDERSEN, LEONARD  
& SIBBETT

By

  
Richard Gladstein

  
Norman Leonard



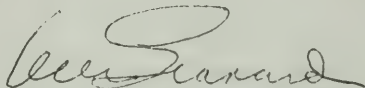


CERTIFICATE OF SERVICE

This is to certify that two copies of the foregoing  
APPELLANT'S OPENING BRIEF was this date mailed to the following

CHARLES P. SCULLY, ESQ.  
995 Market Street  
San Francisco, California 94103

DATED: October 14, 1968.

A handwritten signature in cursive script, appearing to read "Norman Leonard", written in dark ink.

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Norman Leonard



No. 22487 /

MAR 24 1969

IN THE  
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ROBERT W. NEES,

Petitioner,

vs.

SECURITIES AND EXCHANGE  
COMMISSION,

Respondent.

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On Petition For Review of an Order of the  
Securities and Exchange Commission

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PETITIONER'S REPLY BRIEF

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FILED

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FOR THE NINTH CIRCUIT

SANDER L. JOHNSON and  
HAROLD B. BERNSON  
1800 Avenue of the Stars  
Suite 415  
Los Angeles, California 90067  
277-1120

Attorneys for Petitioner



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WILLIAM D. LICK

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HAROLD B. BERNSON  
1800 Avenue of the Stars  
Suite 415  
Los Angeles, California 90067  
277-1120

Attorneys for Petitioner



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HAROLD B. BERNSON  
1800 Avenue of the Stars  
Suite 415  
Los Angeles, California 90067  
277-1120

Attorneys for Petitioner





## TOPICAL INDEX

	<u>Page</u>
ISSUES INVOLVED	1
ARGUMENT	3
I      THE RESPONDENT COMMISSION DID NOT FOLLOW ACCEPTED PROCEDURES IN HEARING CHARGES AGAINST PETITIONER, WITHIN THE MEANING OF SUBSTANTIVE DUE PROCESS OF LAW.	3
II     THE CASES CITED BY RESPONDENT COMMISSION IN ITS ANSWERING BRIEF ARE DISTINGUISHABLE.	9
CONCLUSION	12

## TABLE OF AUTHORITIES

### Cases

Brown-Pacific-Maxom Co. v. Toner, 255 F.2d 611	7
Clemochefsky v. Celebrezze, 222 Fed.Supp. 73	5
Dayco Corp. v. F.T.C., 362 F.2d 180	4
English v. City of Long Beach, 35 Cal.2d 155, 217 P.2d 22, 18 ALR2d 547	7, 8
Giant Food, Inc. v. Federal Trade Comm., 322 F.2d 977, Cert.Dism. 376 U.S. 967	10
Hansen v. Securities & Exchange Comm., 396 F.2d 694, Cert.Den. 393 U.S. 847	9, 10
Hoxey Cancer Clinic v. Folsom, 155 Fed.Supp. 376	5
National Labor Relations Board v. Riverside Mfg.Co., 119 F.2d 302	4



Takeo Tadno v. Manney, 160 F.2d 665	5
United States v. Rasmussen, 222 Fed.Supp. 430	6
Universal Camera Corp. v. National Labor Relations Board, 340 U.S. 474, 71 S.Ct. 456, 95 L.Ed. 456	6
Wallach v. Securities and Exchange Comm., 92 U.S. App. D.C. 108, 202 F.2d 462	9, 10

#### Statutes

Securities and Exchange Act §15(b)	9
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PETITIONER'S REPLY BRIEF

---

ISSUES INVOLVED

---

It is submitted that the Answering Brief of Respondent Commission begs the basic question involved in the Petition for Review. The question is whether on the record petitioner was afforded due process of law in the administrative proceedings against him. Respondent argues from the facts appearing in the record of the August hearings that evidence against petitioner is more than sufficient to sustain the Respondent's order against him.



But the real question is whether that record can be lawfully and constitutionally admitted at all against petitioner. For this reason the counter-statement of the issue, page 1, Answering Brief, is insufficient.

It may be said that the subsidiary questions to the basic question of due process are:

1. Despite the obvious fact that petitioner had been notified of charges made against him, was he duly notified of the hearing scheduled upon such charges?

2. Did the Respondent Commission's Division of Trading and Markets have the burden to prove petitioner was duly notified of such hearing?

3. Where the Hearing Examiner has specifically found petitioner was not duly notified of the hearing, and Respondent Commission found otherwise, has the burden of proof of notice been met?

4. If petitioner was not duly notified of the hearings, may Respondent's Division of Trading and Markets rely upon the record of the August hearings as to which notice was not given, in order to sustain charges against petitioner?





## ARGUMENT

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### I

THE RESPONDENT COMMISSION DID NOT FOLLOW ACCEPTED PROCEDURES IN HEARING CHARGES AGAINST PETITIONER, WITHIN THE MEANING OF SUBSTANTIVE DUE PROCESS OF LAW.

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In the Answering Brief, respondent maintains petitioner's complaint is a procedural one. Such terminology glosses over the import of the complaint of petitioner. Rather, it should be said petitioner raises the fundamental issue of due process -- substantive due process. To say, as respondent does at page 8 of its Answering Brief, that whether petitioner received due notification of the August hearings is "at most of academic interest," is to ignore completely the import of that fundamental issue - to say, in effect, that in administrative proceedings there is no need to be concerned about such a concept as substantive due process.

Under the heading "The Procedure Adopted Met the Requirements of Due Process" (page 9, Answering Brief) Respondent Commission takes the position that the Hearing Officer granted what petitioner had requested: he did "re-open hearings." Claiming that the constitutional guarantee of due process "does not mandate any particular form of procedure," respondent refers to "matters left to the discretion of the Agency



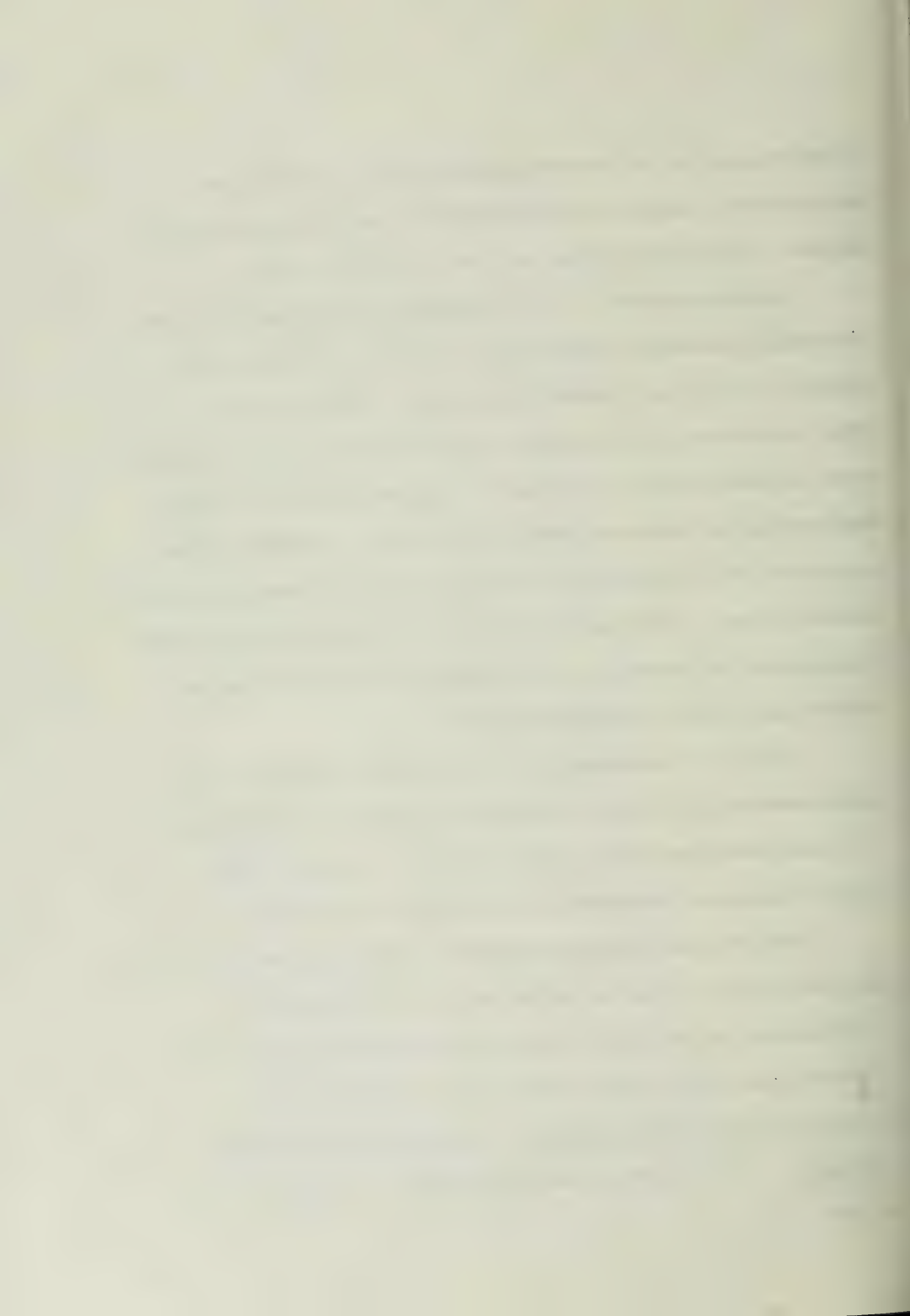
in the exercise of its housekeeping powers." Plainly the matters here complained of by petitioner surely exceed matters of mere "housekeeping powers," whatever that means.

In such manner, i.e., relying upon the semantics of the situation, respondent justifies the procedure employed: the Hearing Officer did "re-open hearings." Nothing is said of what must occur, in the interest of protecting petitioner's rights, when the hearings are re-opened. The questions involved in this petition as above set forth are ignored. Petitioner is not concerned with semantics; it is obvious hearings were re-opened. Not so obvious, in fact not be discerned from the record, is the proposition that petitioner was granted a full and fair hearing conforming to his constitutional rights.

The question whether such rights were afforded is not based upon the question, as respondent seems to claim at page 10 of the Answering Brief, whether a hearing de novo would inconvenience the respondent, its agencies or witnesses.

Too obvious to require extensive citation is the proposition that the burden of proof is on the agency, the Respondent Commission, which is held to the same burdens and obligations of proof as any other litigant who takes the affirmative.

National Labor Relations Board v. Riverside Manufacturing Company, 119 F.2d 302. See Dayco Corp. v. F.T.C., 362 F.2d 180.



Just as basic, as pointed out in petitioner's Opening Brief, when a hearing is had under a statute requiring a hearing, the hearing must conform to fair practices as they are known in the Anglo-Saxon jurisprudence. Takeo Tadno v. Manney, 160 F.2d 665 (1947).

An order must be based on hearing after due notice.  
Hoxsey Cancer Clinic v. Folsom, 155 Fed.Supp. 376.

Of course, the nub of the question here presented is just what was required in affording due process to petitioner, who had not been notified of the August hearings during which the substantial part of the evidence against all respondents was presented. As was well said by the court in Clemochefsky v. Celebrezze, 222 Fed.Supp. 73, 75 (1963):

"It is elementary in cases of this nature that the Secretary's Findings of Fact and the reasonable inferences drawn therefrom are conclusive if they are supported by substantial evidence ... [Citing Authorities]. However, courts must now assume more responsibility than some courts have shown in the past for the reasonableness and fairness of decisions of Federal agencies, and Reviewing Courts must be influenced by a feeling that they are not to abdicate their conventional judicial function. Universal Camera Corp. v. National



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Labor Relations Board, 340 U.S. 474, 71

S.Ct. 456, 95 L.Ed. 456 (1951)"

The sentence last quoted is, of course, a para-phrasing of the language of the Supreme Court, by Mr. Justice Frankfurter, in the Universal Camera case, which reviews the history of, and basis for, judicial review of orders of administrative agencies. The Supreme Court also held in that case, where the administrative agency had overruled the finding of the Hearing Examiner, that in determining the substantiality of the evidence in the record, a report of the Hearing Examiner, who observed the witnesses, should be given reasonable weight even though his findings were reversed by the administrative agency.

Another case which reviews the requirement of due process in administrative hearings is United States v. Rasmussen, 222 Fed.Supp. 430 (1963). There an employee was suspended and removed on an express charge of fraud in the conduct of his office. The applicable regulations provided that any person so removed from office or employment or disqualified shall have the right to appeal for review of the facts, before another agency; there was no provision in the regulations for either hearing or review prior to suspension and removal from office. The court noted that this fact alone does not necessarily involve a denial of procedural due process and that administrative procedures need not conform to all the procedural niceties that surround the



judicial process. Defendant was granted a hearing on the appeal for "review of the facts" and was there present represented by counsel. The court concluded that by reason of the refusal of the reviewing agency at the hearing at which the employee was present to apprise him of the evidence against him and grant the rights of confrontation on cross-examination, there was a failure to meet the requirements of the regulations and a denial of due process in the conduct of the hearing.

It is interesting to note that Respondent Commission at page 10, of its Answering Brief cites Brown-Pacific-Maxom Co. v. Toner, 255 F.2d 611 (C.A. 7, 1958) as the only authority that even comes close to the actual issue involved in this case. As noted, in the situation there the agency relied upon correspondence neither in the record nor mentioned in its decision and had never given the complaining party an opportunity to respond to it. But apart from the factual situations involved, again the Court in that case conducted a thorough review of the requirement of due process in administrative hearings.

The court cited "a well-reasoned opinion," English v. City of Long Beach, 35 Cal.2d 155, 217 P.2d 22, Annot., 18 A.L.R.2d 547. There, a police patrolman was dismissed from his position, and it was held he was deprived of a fair hearing inasmuch as the Civil Service Board in reaching its decision relied upon evidence taken outside the hearing and



outside the presence of English or his attorney. The Federal Court quoted, 217 P.2d 24, from the California Opinion:

" \* \* \* Administrative tribunals which are required to make a determination after a hearing cannot act upon their own information, and nothing can be considered as evidence that was not introduced at a hearing of which the parties had notice or at which they were present.

" \* \* \* The fact that there may be substantial and properly introduced evidence which supports the board's ruling is immaterial.

\* \* \* A contrary conclusion would be tantamount to requiring a hearing in form but not in substance, for the right of a hearing before an administrative tribunal would be meaningless if the tribunal were permitted to base its termination upon information received without knowledge of the parties. A hearing requires that the party be apprised of the evidence against him so that he may have an opportunity to refute, test and explain it, and the requirement of a hearing necessarily contemplates a decision in light of the evidence there introduced." (Emphasis added)



## II

### THE CASES CITED BY RESPONDENT COMMISSION IN ITS ANSWERING BRIEF ARE DISTINGUISHABLE.

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In the final analysis, Respondent Commission relies mainly upon the recent case of Hansen v. Securities and Exchange Commission, 396 F.2d 694 (C.A.D.C.) (Per Curiam), Cert. Den. 393 U.S. 847 (1968) (Ans.Br., p. 10). However, it may readily be seen from footnote 2 to the opinion in that case that a completely different factual situation was there presented, making the court's finding inapplicable to the case at hand: "Petitioner was notified in the prior proceeding that as an associate of Atlantic, under Commission Rule 9(b) he had a right to participate. 17 C.F.R. §201-9(b) (Supp. 1968). He declined. See Wallach v. Securities and Exchange Commission, 92 U.S. App. D.C. 108, 202 Fed.2d 462 (1953)" (Emphasis supplied).

Petitioner, as found by the Hearing Examiner, was not notified of the August hearings and could not thus be bound by the record of those hearings. In point of fact and law it should be noted that the Wallach case, cited by the court in its footnote in Hansen, observed that §15(b) of the Securities and Exchange Act in effect provides the means for joining together in one judicial proceeding - civil or criminal - all parties deemed necessary by the Commission, whether salesman or employer.





The court stated "the determinations in such a proceeding would be res judicata in any future proceedings and by statutory direction are made applicable to the denial or revocation of broker-dealer registration under the Act." (pp. 463-464). Hence the court in Hansen had no choice but to rule as it did. Here the Respondent Commission is attempting to extend the rule of Hansen and Wallach and to say that the doctrine of res judicata is applicable to petitioner by virtue of the August hearings even though he was not notified of such hearings.

Respondent cites for comparison to Hansen (footnote 10, p. 11, Ans.Br.) the case of Giant Food, Inc. v. Federal Trade Commission, 322 F.2d 977 (C.A.D.C., 1963) Cert.Dism. 376 U.S. 967 (1964). Again, even quick reading of this case demonstrates that a different factual situation was there involved. Counsel for petitioner on a petition to review a Federal Trade Commission order had declined to re-examine certain buyer-witnesses on the ground that in the circumstances they would be made his witnesses. The Hearing Examiner assured counsel that even though called by him, at a later stage in the proceedings, they would not be regarded as his witnesses. The reviewing court found the position by counsel was ill-taken and that the testimony of such witnesses as previously given could not be stricken from the record. Petitioner has cited the Giant Food case at p. 13 of his Opening Brief for the principles there enunciated by the court, including its statement at p. 984:



"'Because the Commission is at once, the accuser, the prosecutor, the judge and the jury' it must remain alert to observe accepted standards of fairness. The reviewing courts must, therefore, be alert to ascertain that the true substance of a fair hearing is not denied to a party, bearing in mind that the inordinate delay common in administrative hearings of the sort now before us is a legitimate cause of public concern."

At page 12 of the Answering Brief, and throughout the Brief, respondent refers to testimony of customer-witnesses and other individuals as given at the August hearings, again ignoring the import of petitioner's complaint, i.e., that the record of such testimony in view of lack of notice, cannot stand against petitioner. At page 12 respondent asserts witness Fred Colton was present at the re-opened hearings available for cross-examination. But petitioner, in the circumstances, was not required to rebut a case not yet made out against him. Obviously, as already cited, it was the burden of the Division of Trading and Markets of Respondent Commission to present its case against petitioner in a full and fair hearing of which petitioner had been given due notice.

To say further, as respondent does at pages 12-14 of the Answering Brief, that petitioner's form of objection to the



re-opened hearings as constituted was an improper general objection to evidence is again to ignore the thrust of petitioner's complaint on appeal. Whatever the semantics involved, it is clear from the record that counsel for petitioner made crystal clear to the hearing officer the position taken by him on behalf of petitioner: that petitioner could not be bound by the record of the August hearings, of which he was not duly notified, and that as a result the Respondent Commission had the burden in a full hearing of establishing its case, before the petitioner could be called upon to rebut such case. Counsel wanted the right of confrontation of all witnesses simultaneous with their full and direct testimony, and the right to contemporaneous cross-examination, a right which is constitutionally guaranteed.

### CONCLUSION

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For the reasons stated, the order of the Commission barring Nees from association with any broker or dealer should be set aside.

Respectfully submitted,

SANDER L. JOHNSON and  
HAROLD B. BERNSON

Attorneys for Petitioner.



UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT

\_\_\_\_\_  
No. 22487  
\_\_\_\_\_

FEB 24 1960

FILED

FEB 1 1960

ROBERT W. NEES,

Wm. B. LUCK, Clerk

Petitioner,

v.

SECURITIES AND EXCHANGE COMMISSION,

Respondent.

\_\_\_\_\_  
On Petition For Review of an Order of the  
Securities and Exchange Commission

\_\_\_\_\_  
ANSWERING BRIEF OF THE  
SECURITIES AND EXCHANGE COMMISSION, RESPONDENT

PHILIP A. LOOMIS, JR.  
General Counsel

DAVID FERBER  
Solicitor

DONALD M. FEUERSTEIN  
Assistant General Counsel

RICHARD E. NATHAN  
Attorney

Securities and Exchange  
Commission  
Washington, D.C. 20549





## TABLE OF CONTENTS

	<u>Page</u>
TABLE OF AUTHORITIES . . . . .	1
COUNTERSTATEMENT OF THE ISSUE . . . . .	1
COUNTERSTATEMENT OF THE CASE . . . . .	1
ARGUMENT . . . . .	8
<u>NEES WAS AFFORDED A FAIR HEARING</u> . . . . .	8
A. <u>The Procedure Adopted Met the Requirements</u> <u>of Due Process</u> . . . . .	9
B. <u>Nees's Defense Was in No Way Prejudiced by</u> <u>the Procedure Used</u> . . . . .	11
CONCLUSION . . . . .	16

## TABLE OF AUTHORITIES

### Cases:

<u>Brown-Pacific-Maxon Co. v. Toner</u> , 255 F. 2d 611 (C.A. 7, 1958) . . . . .	10
<u>Consolidated Edison Co. v. National Labor Relations</u> <u>Board</u> , 305 U.S. 197 (1938) . . . . .	14
<u>Continental Oil Co. v. United States</u> , 184 F. 2d 802 (C.A. 9, 1950) . . . . .	13
<u>Cook-O'Brien Constr. Co. v. Crawford</u> , 26 F. 2d 574 (C.A. 9, 1928) . . . . .	13
<u>Curtis v. North American Indian, Inc.</u> , 277 Fed. 909 (C.A. 9, 1922) . . . . .	13
<u>Ewing v. Mytinger &amp; Casselberry, Inc.</u> , 339 U.S. 594 (1949) . .	9
<u>Federal Trade Commission v. Cement Institute</u> , 333 U.S. 683 (1948) . . . . .	14

Cases (continued):

	<u>Page</u>
<u>Freight Consolidators Cooperative, Inc. v. United States,</u> 230 F. Supp 692 (S.D. N.Y., 1964) . . . . .	11
<u>Giant Food, Inc. v. Federal Trade Commission,</u> 322 F. 2d 977 (C.A. D.C., 1963), <u>certiorari dismissed</u> , 376 U.S. 967 (1964) . . . . .	11
<u>Hansen v. Securities and Exchange Commission,</u> 396 F. 2d 694 (C.A. D.C.), <u>certiorari denied</u> , 393 U.S. 847 (1968) .	10
<u>Hartzell v. United States,</u> 72 F. 2d 569 (C.A. 8, 1934) . . . .	13
<u>Inland Empire District Council v. Millis,</u> 325 U.S. 697 (1945) . . . . .	9
<u>International Shoe Co. v. Washington,</u> 326 U.S. 310 (1945) . .	8
<u>Lichter v. United States,</u> 334 U.S. 742 (1948) . . . . .	9
<u>McNary, In re,</u> 83 F. Supp. 121 (N.D. N.Y., 1949) . . . . .	11
<u>Mullane v. Central Hanover Bank &amp; Trust Co.,</u> 339 U.S. 300 (1950) . . . . .	8
<u>Myzel v. Fields,</u> 386 F. 2d 718 (C.A. 8, 1967), <u>certiorari denied</u> , 390 U.S. 951 (1968) . . . . .	15
<u>North Whittier Heights Citrus Ass'n v. National Labor</u> <u>Relations Board,</u> 109 F. 2d 76 (C.A. 9), <u>certiorari</u> <u>denied</u> , 310 U.S. 632 (1940) . . . . .	13
<u>Opp Cotton Mills, Inc. v. Administrator,</u> 312 U.S. 126 (1941) .	9
<u>Paramount Cap Mfg. Co. v. National Labor Relations Board,</u> 260 F. 2d 109 (C.A. 8, 1958) . . . . .	11
<u>Railway Express Agency v. Civil Aeronautics Board,</u> 243 F. 2d 422 (C.A. D.C., 1957) . . . . .	11
<u>Travelers Health Ass'n v. State Corporation Commission,</u> 339 U.S. 643 (1950) . . . . .	8
<u>Willapoint Oysters, Inc. v. Ewing,</u> 174 F. 2d 676 (C.A. 9), <u>certiorari denied</u> , 338 U.S. 860 (1949) . . . . .	14

<u>Statutes and Rules:</u>		<u>Page</u>
<u>Administrative Procedure Act, as codified:</u>		
Section 7(c), 5 U.S.C. 556(d) . . . . .		14
Section 10(e), 5 U.S.C. 706 . . . . .		8
<u>Securities Act of 1933, 15 U.S.C. 77a, et seq.:</u>		
Section 5, 15 U.S.C. 77e . . . . .		15
Section 17(a), 15 U.S.C. 77q(a) . . . . .		2
<u>Securities Exchange Act of 1934, 15 U.S.C. 78a, et seq.:</u>		
Section 10(b), 15 U.S.C. 78j(b) . . . . .		2
Section 15(b), 15 U.S.C. 78o(b) . . . . .		2
Section 15(c)(1), 15 U.S.C. 78o(c)(1) . . . . .		2
Section 15A, 15 U.S.C. 78o-3 . . . . .		2
Section 25(a), 15 U.S.C. 78y(a) . . . . .		1
<u>Rules Under the Securities Exchange Act of 1934,</u>		
<u>17 CFR 240.0-1, et seq.:</u>		
Rule 10b-5, 17 CFR 240.10b-5 . . . . .		2
Rule 15c1-2, 17 CFR 240.15c1-2 . . . . .		2
<u>Rules of Practice of the Securities and Exchange Commission,</u>		
<u>17 CFR 201.1, et seq.:</u>		
Rule 6(b), 17 CFR 201.6(b) . . . . .		8
Rule 6(e), 17 CFR 201.6(e) . . . . .		4, 8
Rule 15, 17 CFR 201.15 . . . . .		10
<u>Miscellaneous authorities:</u>		
S. Rep. No. 752, 79th Cong., 1st Sess. (1946) . . . . .		14
J. Wigmore, <u>Evidence</u> (3d ed. 1949) . . . . .		13



UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

No. 22487

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ROBERT W. NEES,

Petitioner,

v.

SECURITIES AND EXCHANGE COMMISSION,

Respondent.

---

ANSWERING BRIEF OF THE SECURITIES AND EXCHANGE COMMISSION, RESPONDENT

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COUNTERSTATEMENT OF THE ISSUE

May a respondent who had been notified of charges made against him in an administrative proceeding require that a hearing involving numerous parties be repeated because a notice of that hearing, although mailed to a proper address, was not received by him, when he has subsequently been afforded a full and fair opportunity to cross-examine all material adverse witnesses, to make specific objection to consideration of documentary evidence and otherwise to defend against the charges?

COUNTERSTATEMENT OF THE CASE

Robert W. Nees ("Nees") has petitioned this Court, pursuant to Section 25(a) of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. 78y(a), to review two orders of the Securities and Exchange Commission by which he has been barred from further association with any

broker or dealer in securities.<sup>1/</sup> The orders were entered at the conclusion of administrative proceedings conducted by the Commission pursuant to Sections 15(b) and 15A of the Exchange Act, 15 U.S.C. 78o(b), 78o-3 (R. 1228-1232). The respondents were Century Securities Company ("Century"), which had been registered with the Commission as a broker and dealer in securities, that firm's two general partners and six individuals, including Nees, who had been its sales representatives.<sup>2/</sup> The proceedings were held to determine whether the respondents had, among other things, willfully violated antifraud provisions of the Securities Act of 1933 ("Securities Act") and of the Exchange Act<sup>3/</sup> in the offer and sale of securities issued by Jayark Films Corporation ("Jayark").

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1/ The Commission's order, dated July 14, 1967 (R. 2012), was based upon its findings and opinion of the same date (R. 2000-2011). A Memorandum Opinion and Order Denying Rehearing, Leave to Adduce Additional Evidence, and Stay was subsequently entered on November 1, 1967 (R. 2013-2017).

The record before the Commission is cited in this brief as "R. \_\_\_\_." Nees's opening brief in this Court is cited as "Br. \_\_\_\_."

2/ In addition to the action taken against Nees, the order (R. 2012) revoked the registration of Century as a broker and dealer and barred three other salesmen as well as Century's two owners from further association with any broker or dealer. The Commission had previously taken action against one salesman whose offer of settlement had been accepted (R. 1996-1997) and against another who had defaulted (R. 1998-1999).

William Reigel, one of the salesmen who has been barred by the Commission's final order, has also petitioned this Court for review. His petition has been docketed as No. 22459. None of the other respondents before the Commission has sought review.

3/ Section 17(a) of the Securities Act of 1933, 15 U.S.C. 77q(a), and Sections 10(b) and 15(c)(1) of the Exchange Act, 15 U.S.C. 78j(b) and 78o(c)(1), as well as Rules 10b-5 and 15c1-2, 17 CFR 240.10b-5 and 240.15c1-2, promulgated by the Commission under the latter statute.



A copy of the order for proceedings was mailed to Nees in October 1964 (R. 1228-1232, 1237). There is no dispute that Nees received that order, or that the address in California to which it was directed was his mailing address. That order gave notice of the charges and stated that hearings would be held at a "time and place to be fixed" (R. 1231). As stated in Nees's brief (p. 3), he thereafter "moved outside the State." So far as the record shows, for at least ten months after his answer was filed on November 6, 1964 (R. 1250), he made no effort whatever to advise the Commission of his new address or to inquire about the status of the proceeding.

Meanwhile, a notice of hearings to be held in Los Angeles, California (R. 1274), was mailed to all parties, including Nees (R. 639-640), on July 7, 1965. Pursuant to this notice four days of hearings were held in Los Angeles in August 1965 at which six other respondents were present (R. 1a-544). At the hearing testimony was taken from 22 persons, and 57 exhibits were received in evidence (R. 639-1175).

After Nees failed to appear at the hearings held in August 1965, a request to enter default against him was filed on August 30 and again mailed to him at his address in California (R. 1291). Nees received this request and two months later, appearing by counsel, filed objections to entry of default (R. 1360, 1370-1371). He claimed that he had not received actual notice of the August hearing and requested "that the Hearing Officer reopen hearings . . . so that Respondent Nees might



respond to evidence allegedly against him" and "present his defense to the statement of charges" (R. 1360, 1371).

The hearing examiner agreed with the staff that in serving the notice of hearing "the Commission had a proper mailing address for Nees" (R. 1383). Nevertheless, as a matter of law he construed Rule 6(e) of the Commission's Rules of Practice, 17 CFR 201.6(e), to require actual receipt of the notice (absent a showing of an attempt to evade service) and concluded (R. 1384) that there had been "a failure of proof that Nees 'has been duly notified' of the hearing within the meaning of Rule 6(e)." <sup>4/</sup> Thus, on December 3, 1965, he ordered the hearings reopened, as Nees had explicitly requested, "to afford respondent Nees an opportunity to interpose a defense to the allegations of the order for proceeding and to respond to such evidence as has been or may be introduced against him . . ." (R. 1384-1385). The Commission subsequently held that Nees had been duly

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<sup>4/</sup> At a conference prior to the August hearing, counsel for the Commission's Division of Trading and Markets had stated that he had learned "that Mr. Nees had entirely left the area, . . . and was residing somewhere in Minnesota . . . or Wisconsin" and that he had unsuccessfully endeavored to reach him by telephone. He also stated that he had been advised by one of the other respondents that the latter had "been unable to contact Mr. Nees." (R. 10-1p.) The notice, sent to Nees's last known address by certified mail was not returned to the Commission as undelivered (R. 639, 640), but, as noted by the hearing examiner, "the Commission did not receive a return receipt indicating delivery of that order" (R. 1384). Inquiry revealed that the post office in California in fact forwarded the notice to an address in Minneapolis, Minnesota, which was apparently Nees's new address (R. 1348 n.3). The post office in Minneapolis, however, did not have any record whether the notice had actually been delivered (R. 1384 n.3).

served with the original notice of hearing, but that "the examiner had properly exercised his discretion in reopening the hearings" (R. 2010).

When the hearings were reopened on February 15, 1966 (R. 544a-638), the two witnesses who had testified to Nees's representations at the original hearings (R. 209-237; 344-362) reaffirmed their prior statements (R. 561-562; 593) and were cross-examined by his attorney (R. 562-569; 578-582; 594-596).<sup>5/</sup> In addition, Nees testified in his own defense (R. 596-632). He did not, however, seek to cross-examine Fred Colton, one of the other

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5/ One customer testified that, among other things, Nees told him in July 1963 that it was just a matter of days before Jayark would sign a \$50 million film contract that might profit Jayark by as much as \$10 million (R. 214-215, 563, 573-574). Nees represented that Jayark was making money (R. 216) and had sent the customer a circular purportedly to verify what he had said (R. 218-219, 563-564). But it contained no financial information (R. 1174-1175). Indeed, no financial information about Jayark was provided before a sale was made (R. 216-221, 563-565). When the investor advised Nees that he was not interested in speculations, he was advised that Jayark was not a speculation since the multi-million dollar film-agreement was virtually completed and it was going to make money (R. 578, 582, 586). The same witness was told that the shares offered at 7-1/2 would be worth \$10 or \$12 within six months and could go to \$30 if held for a longer period (R. 214-215). Nees also led another customer to believe that Jayark was sure to enter a contract for old movies to be shown on television and that the price of its stock would consequently double within a year (R. 349-350).

respondents, who had testified adversely to Nees at the August hearings (R. 444-445), although Colton was present at the reopened hearings (R. 545). <sup>6/</sup>

Counsel for Nees was not satisfied, however, with being provided the full opportunity that had been requested to answer the evidence and present Nees' defense; he still objected generally "to all the evidence, both oral and in exhibit form, that the Hearing Examiner . . . ruled as being part of the record . . . against Respondent Nees" from the earlier hearings (R. 560, 633) and objected as well to the supposed binding effect of stipulations to which Nees had not been a party. Although Nees' counsel was acquainted with the record (R. 557) and had been offered an opportunity by the hearing examiner to object specifically to particular evidence (R. 558), he rested on his blanket objection. The hearing examiner overruled the general objections and permitted the record of the original

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6/ Colton testified that he had "distributed to the . . . [salesmen] the reports on Jayark that are in evidence," and had "divulged [to] all of my salesmen the financial condition of Jayark" (R. 446). He "told the salesmen that Jayark was operating at a deficit, that clients should be notified when purchasing their stock" (R. 445-446).

Colton's testimony shows also that Nees and the others at Century knew very little about the negotiations for the film contract that Nees had described to the investors in glowing terms. The respondents knew that negotiations were in progress, but they "had no knowledge of the actual ending of negotiations," or that any "deal was closed" (R. 445). Respondents' Exhibit E (R. 1174-1175), which was accepted "as an indication of the nature of the advice received" by Century from the president of Jayark (R. 427), was introduced in evidence by Colton. Aside from assertions of optimism, that letter, consistent with Colton's testimony, revealed little more than the existence of the negotiations and cautioned that "there is no way of knowing, of course, whether these negotiations will succeed . . ." (R. 1174).

hearings to stand against Nees in view of the ample opportunity afforded him to make appropriate objections, to cross-examine the witnesses who had testified and to introduce evidence of his own (see R. 547-561; 633).

Based upon the record as a whole, the hearing examiner filed an initial decision on August 31, 1966, in which he found, among other things, that in the sale of Jayark stock, Century, its owners and salesmen, including Nees, had willfully violated the antifraud provisions of the Securities Act and the Exchange Act. Relying primarily upon the testimony of the two witnesses that Nees's attorney had cross-examined, the examiner found that Nees had made "glaringly false and unwarranted representations" in the sale of securities (R. 1699), and that certain of his activities "constituted a reckless abandonment and disregard of his obligation for fair dealing in accordance with the standards of the profession" (R. 1700).

Upon an independent review of the entire record (R. 2001), the Commission concluded

"that respondents [including Nees] engaged in a scheme to defraud investors by means of a persistent high-pressure campaign over the telephone to sell the speculative stock of Jayark, which involved the use of fraudulent representations and predictions" (R. 2001),

which were made "without a reasonable basis." (R. 2003). It also found that all the respondents had failed to tell their customers about Jayark's adverse financial condition prior to their purchases (R. 2003). Thus, the Commission found Nees to have willfully violated or aided and abetted violations of the antifraud provisions, as charged (R. 2001-2006). It barred him from further association with any broker or dealer (R. 2112).



ARGUMENT

NEES WAS AFFORDED A FAIR HEARING

Nees does not contend that the Commission's findings that he engaged in fraudulent conduct of a serious nature are without a substantial basis on the entire record. Nor does he argue that the sanction imposed upon him was inappropriate on this basis. His sole complaint is a procedural one. In this connection it should also be made clear that there is no surviving issue before this Court as to the service of the notice of the August hearings. Because the hearing examiner reopened the proceedings on Nees's motion, despite the fact that the motion was made more than two months after Nees had admittedly learned that the hearing had been held (R. 1370), whether due notification of the August hearing had originally been given to Nees is at most of academic interest. <sup>7/</sup> Section 10(e) of the Administrative Procedure Act, as codified, 5 U.S.C. 706, provides that "due

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7/ In any event the Commission was clearly correct that "Nees was duly notified of the hearings" (R. 2010). Pursuant to Rule 6(b) of the Commission's Rules of Practice, 17 CFR 201.6(b), the notice of hearing mailed to Nees was "addressed to his last known business or residence address. . . ." (p. 3, supra). It is well settled that a proper mailing will satisfy due process requirements. See, e.g., Travelers Health Ass'n v. State Corporation Commission, 339 U.S. 643, 650-651 (1950); Mullane v. Central Hanover Bank & Trust Co., 339 U.S. 300, 318-319 (1950); International Shoe Co. v. Washington, 326 U.S. 310, 320-321 (1945). Nevertheless, the hearing examiner held that Nees had not been "duly notified" within the meaning of Section (e) of the same rule. Without disagreeing with any of the hearing examiner's factual findings, the Commission read Rule 6(e) differently. In the absence of any contrary authority, the Commission was surely not foreclosed by the hearing examiner's purely legal conclusion from making its own reasonable construction of the rule it had adopted.

account shall be taken of the rule of prejudicial error" by a court reviewing agency action.

A. The Procedure Adopted Met the Requirements of Due Process.

The entire relief sought by Nees in his "OBJECTIONS TO ENTRY OF DEFAULT AND REQUEST TO REOPEN HEARING" was as follows:

"Respondent ROBERT W. NEES hereby requests that the Hearing Officer reopen hearings in the above matter so that respondent NEES may respond to evidence allegedly against him." (R. 1360.)

This is precisely the relief that the hearing officer provided (see p. 4, supra). Nees apparently contends (Br. 21-23), however, that this relief does not afford "fundamental rights of due process." But that constitutional guaranty does not mandate any particular form of procedure; nor does it determine when, in the course of an administrative proceeding, a hearing should or must be held. These are matters left to the discretion of the agency in the exercise of its housekeeping powers. See Inland Empire District Council v. Millis, 325 U.S. 697, 710 (1945); Opp Cotton Mills, Inc. v. Administrator, 312 U.S. 126, 152-153 (1941).

Of course, the right to a hearing involves a fair opportunity to confront and cross-examine material adverse witnesses, to respond to the evidence adduced or make proper objection to its consideration and otherwise to defend against charges made. That opportunity may be afforded, however, at any time before a final order becomes effective. See, e.g., Ewing v. Mytinger & Casselberry, Inc., 339 U.S. 594, 598-600 (1949); Lichter v. United States, 334 U.S. 742, 791-792 (1948); Opp Cotton Mills, Inc. v. Administrator, supra, 312 U.S. at 152-153. This is particularly

so when prior hearings have already been held, and it would greatly inconvenience not only the Commission's staff but also the other respondents, numerous witnesses and the hearing examiner to start all over again. <sup>8/</sup>

Nees cites no authority that holds that a subsequent opportunity to cross-examine witnesses or otherwise make a defense is not sufficient. <sup>9/</sup>  
The recent case of Hansen v. Securities and Exchange Commission, 396 F. 2d 694 (C.A. D.C.) (per curiam), certiorari denied, 393 U.S. 847 (1968), is

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<sup>8/</sup> Nees's reliance (Br. 14-17) on Rule 15 of the Commission's Rules of Practice, 17 CFR 201.15, dealing with the taking of depositions is misplaced. There appears to be nothing in Rule 15 that would prevent a hearing examiner, in connection with depositions, from permitting a procedure analogous to that adopted here. If, for example, an additional party were named in a proceeding after a deposition had been taken, we think that under Rule 15, consistent with due process, the examiner could simply permit him to cross-examine the deponent on the basis of his earlier testimony. In any event, the entire argument begs the question before this Court. It does not seem that the provisions of Rule 15 vary materially from usual provisions pertaining to notice and opportunity to participate that apply to hearings. Indeed, paragraph (b) of the rule provides that "[e]xamination and cross-examination of deponents may proceed as permitted at the hearing." Thus, Nees's unsupported conclusions with respect to Rule 15 are entitled to no greater weight than his similarly unsupported contentions about the procedure actually in issue.

<sup>9/</sup> The only authority that even comes close to the actual issue involved in this case, Brown-Pacific-Maxon Co. v. Toner, 255 F. 2d 611 (C.A. 7, 1958), involved a situation in which the agency relied upon correspondence neither in the record nor mentioned in its decision and had never given the complaining party an opportunity to respond to it.

directly contrary to Nees's contention. There it was explicitly held that

"... it was within the Commission's discretion to receive [in evidence] the transcribed testimony [from an earlier proceeding], while still comporting with fairness to petitioner by offering the opportunity to cross-examine any witness whose transcribed testimony was so received." 10/

**B. Nees's Defense Was in No Way Prejudiced by the Procedure Used.**

At the February hearing Nees's counsel cross-examined the two customer-witnesses who had previously testified against Nees (R. 562-569, 578-582, 594-596). Although he now states that the value of contemporaneous cross-examination "was never more vividly illustrated" (Br. 18), he does not point to a single specific example to support this claim. Indeed, with equal lack of specificity he emphasizes the effectiveness of his cross-examination (Br. 17-18).

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10/ Cf. Giant Food, Inc. v. Federal Trade Commission, 322 F. 2d 977 (C.A. D.C., 1963), certiorari dismissed, 376 U.S. 967 (1964), a dictum from which is cited on p. 13 of Nees's brief. There the court actually held that, since a subsequent opportunity to cross-examine had been offered but had been refused, the contention that direct testimony, given on an earlier occasion "was not properly part of the record fails." 322 F. 2d at 984. See also Paramount Cap Mfg. Co. v. National Labor Relations Board, 260 F. 2d 109, 113 (C.A. 8, 1958); Railway Express Agency v. Civil Aeronautics Board, 243 F. 2d 422, 424 (C.A. D.C., 1957); In re McNary, 83 F. Supp. 121, 122 (N.D. N.Y., 1949). And cf. Freight Consolidators Cooperative, Inc. v. United States, 230 F. Supp. 692, 699 (S.D. N.Y., 1964):

"Assuming arguendo that . . . [certain respondents in an administrative proceeding] were injured by the failure of the [Interstate Commerce] Commission to grant them a de novo hearing, then any harm ensuing could have been cured by them. They were afforded an opportunity to recall and cross-examine witnesses but declined to do so."



Nees also vaguely asserts that the Commission's findings against him are based upon "the testimony of other witnesses" in addition to that of these two customers (Br. 14). Since the customers themselves testified as to the representations and predictions made by Nees and his failure to provide them with any financial information about Jayark (see p. 5, n. 5, supra), Nees appears to refer to the testimony of Fred Colton, which proved that Nees was in possession of adverse financial information about Jayark and had no basis for the representations and predictions (see p. 6, n. 6, supra). With respect to Colton, Nees's contention is not only unjustified but actually misleading. As a respondent, Colton was present and available for cross-examination by Nees at the reopened hearings (R. 545). The fact that he was not cross-examined cannot be blamed upon the procedures adopted by the hearing examiner; it is a result, simply, of Nees's failure to recall him to the stand. Indeed, with respect to all of the prior witnesses, Nees's counsel had been offered the opportunity to indicate which of them they wished to have attend the February hearing but indicated that they would require only the presence of the two customer-witnesses (see R. 548, 1557-1563). Thus, Nees has no basis for complaint in this regard.

Before the hearings were reopened, Nees claimed the right to object to consideration of documents that had been admitted in evidence at the original hearings (R. 1548-1551); the record is clear that he was given the opportunity to do so. At the reopened hearings counsel for Nees objected generally "to all the evidence, both oral and in exhibit form,

that the Hearing Examiner . . . ruled as being part of the record . . . against Respondent Nees" from the earlier hearings (R. 560, 633). He declined the expressly offered opportunity, however, to make specific objections to particular evidence (R. 558), after having indicated that he would not object to introduction of the evidence in the record if that were done in his presence (R. 557).

The examiner properly overruled objections made in general form to the contents of the entire record. He was plainly not obliged himself to examine each item in it to ascertain which of them pertained to Nees and which of those were for any reason objectionable. Cf. Continental Oil Co. v. United States, 184 F. 2d 802, 814 (C.A. 9, 1950). Furthermore, even if Nees were now specific in his contentions before this Court, and some basis for objection could be found, it is a "cardinal principal . . . that a general objection, if overruled, cannot avail the objector on appeal . . . ." 1 J. Wigmore, Evidence § 18, at 332 (3d ed. 1940) (emphasis in original), and authorities cited there. See North Whittier Heights Citrus Ass'n v. National Labor Relations Board, 109 F. 2d 76, 83 (C.A. 9), certiorari denied, 310 U.S. 632 (1940); Cook-O'Brien Constr. Co. v. Crawford, 26 F. 2d 574, 575 (C.A. 9, 1928) (claimed failure to provide original documents); Curtis v. North American Indian, Inc., 277 Fed. 909, 911 (C.A. 9, 1922) (claim of improper authorization); cf. Hartzell v. United States, 72 F. 2d 569, 583-584 (C.A. 8, 1934) (no foundation laid).

In any event, the documentary evidence pertinent to Nees was unobjectionable. The language and legislative history of Section 7(c) of the Administrative Procedure Act, as codified, 5 U.S.C. 556(d), make clear that "the exclusionary rules of evidence do not apply" in administrative proceedings. S. Rep. No. 752, 79th Cong., 1st Sess. (1946), pp. 22-23. See Federal Trade Commission v. Cement Institute, 333 U.S. 683, 705-706 (1948); Consolidated Edison Co. v. National Labor Relations Board, 305 U.S. 197, 229-230 (1938); Willapoint Oysters, Inc. v. Ewing, 174 F. 2d 676, 690 (C.A. 9), certiorari denied, 338 U.S. 860 (1949). Furthermore, a showing of relevance and ample authentication of the exhibits material to Nees was provided by the witnesses who were present at the reopened hearings. Mr. Colton had "distributed to the men [including Nees] the reports on Jayark that are in evidence" (R. 445), and both Nees (R. 599, 602) and the investor to whom it had been mailed (R. 217, 563-564) testified concerning the only exhibit (R. 997-998) upon which the Commission explicitly relied in making its findings against Nees (R. 2002).

Finally, Nees claims that he has been held to stipulations to which he did not agree, particularly with respect to proof that he used the mails or instrumentalities of interstate commerce (Br. 18, 22). Except for a few immaterial agreements that may have been reached in the course of the hearings, however, the only stipulation of facts contained in the record was entered at the pretrial conference held August 5, 1965 (R. 1p-1s, 6-10). It is clear from the terms of the stipulation that the agreed facts and the related exhibits (R. 642-855) do not pertain to

the substance of the anti-fraud violations Nees has been found to have committed. They relate instead to the registration requirements under Section 5 of the Securities Act of 1933, 15 U.S.C. 77e, which other of the respondents, but not Nees, were found to have violated (R. 2007-2008). The hearing examiner explicitly ruled that this stipulation was not binding upon Nees since he was not present (R. 1n). Nees makes no showing that the Commission improperly relied upon it against him.

With respect to proof of Nees's use of the jurisdictional means the record is replete with evidence supporting the Commission's jurisdiction to take remedial action against Nees. When Nees voluntarily took the stand at the reopened hearings, he himself confirmed the investors' testimony that he had used the mails in connection with the sale to them of Jayark securities (e.g., R. 216-217, 221, 563-564, 599, 602); that he also used the telephone--an instrumentality of interstate commerce Myzel v. Fields, 386 F. 2d 718, 727-728 (C.A. 8, 1967), certiorari denied, 390 U.S. 951 (1968)--is likewise clear (e.g., R. 211, 349, 599, 603-604).

CONCLUSION

For the reasons stated, the order of the Commission barring Nees from association with any broker or dealer should be affirmed.

Respectfully submitted,

PHILIP A. LOOMIS, JR.  
General Counsel

DAVID FERBER  
Solicitor

DONALD M. FEUERSTEIN  
Assistant General Counsel

RICHARD E. NATHAN  
Attorney

Securities and Exchange Commission  
Washington, D.C. 20549

February 1969

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IN THE UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT

ROBERT W. NEES,

Petitioner,

vs.

SECURITIES AND EXCHANGE  
COMMISSION,

Respondent.

---

BRIEF FOR PETITIONER

APPEAL FROM  
ORDER OF SECURITY AND EXCHANGE COMMISSION

---

SANDER L. JOHNSON

1800 Avenue of the Stars  
Suite 415  
Los Angeles, California 90067

277-1120

Attorney for Petitioner

FEB 24 1968

FILED

MAR 11 1968

U.S. COURT OF APPEALS





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1800 Avenue of the Stars  
Suite 415  
Los Angeles, California 90067

277-1120

Attorney for Petitioner





## TOPICAL INDEX

	<u>Page</u>
Table of Authorities	ii
STATUTORY BASIS OF APPEAL	1
STATEMENT OF THE CASE	2
I Proceedings to Date	2
II The Facts of This Case	6
SPECIFICATION OF ERRORS RELIED UPON	9
QUESTIONS PRESENTED	10
SUMMARY OF ARGUMENT	10
I CONFIRMATION BY RESPONDENT COMMISSION OF THE HEARING EXAMINER'S RULINGS DENYING MOTIONS AND OVERRULING OB- JECTIONS OF PETITIONER WAS ERRONEOUS AND PREJUDICIAL.	11
A. TESTIMONY ADDUCED AT THE AUGUST HEARINGS MAY NOT BE HELD AGAINST PETITIONER.	11
B. THE HEARING EXAMINER'S RULINGS RESPECTING THE RECORD AGAINST PETITIONER WERE ERRONEOUS UNDER THE RESPONDENT COM- MISSION'S OWN RULES OF PRACTICE.	14
II THE FINDINGS OF FACT IN THE INITIAL DECISION AND FINDINGS AND OPINION OF RESPONDENT COMMISSION ARE CLEARLY ERRONEOUS.	17
III THE RESPONDENT COMMISSION WAS BOUND BY THE HEARING EXAMINER'S FINDING RESPECTING NOTICE TO PETITIONER.	19
IV IN THE TOTALITY OF THE CIRCUM- STANCES PETITIONER HAS BEEN DENIED FUNDAMENTAL RIGHTS OF DUE PROCESS.	21
CONCLUSION	23



# TABLE OF AUTHORITIES

<u>Cases</u>	<u>Page</u>
Allentown Broadcasting Corporation v. Federal Communications Commission, 222 F. 2d 781 (1954)	20
Automobile Sales Co. v. Bowles, 58 F. Supp. 469 (1945)	13
Brown-Pacific Maxon Co. v. Toner, 255 F. 2d 611 (7th Cir. 1968)	17
Burton-Dixie Corporation v. Federal Trade Commission, 240 F. 2d 166 (1957)	20
General Foods Corp. v. Brannan, 170 F. 2d 220 (7th Cir. 1948)	13, 18
Giant Food, Inc. v. F. T. C., 322 F. 2d 977, 116 U. S. App. DC 277, cert. dismissed 376 U. S. 967, 84 S. Ct. 1121, 12 L. Ed. 2d 82 (1963)	13
National Labor Relations Board v. Local 160 International Hod Carriers, etc., 268 F. 2d 185 (1959)	20
Ng Yip Yee v. Barber, 267 F. 2d 206 (1959)	23
Rosedale Coal Co. v. Director of U. S. Bureau of Mines, 247 F. 2d 299 (1957)	12-13
Speiser v. Randall, 357 U. S. 513, 78 S. Ct. 1332, 2 L. Ed. 2d 1460 (1958), reh. denied 358 U. S. 860, 79 S. Ct. 12, 3 L. Ed. 2d 95	19
Stoval v. Denno, 388 U. S. 293, 87 S. Ct. 1967 (1967)	22
J. A. Terteling & Sons, Inc. v. United States, 390 F. 2d 926 (1968)	22
United States v. Meyers, 381 F. 2d 814 (1967)	22



United States Steel Company v. National Labor Relations Board, 196 F. 2d (1952)	20
---	----

Constitution

United States Constitution:	
Fifth Amendment	22

Statutes

Administrative Procedure Act, §5(c)	11
Exchange Act, §10(b)	6
Exchange Act, §15(c)(1)	6
Securities Act, §17(a)	6
Securities Act of 1933, §9	1
Securities and Exchange Act of 1934, §15A	1-2
Securities and Exchange Act of 1934, §15(b)	1-2
Securities and Exchange Act of 1934, §25	1
5 U. S. C. A. , §1004(c)	11
5 U. S. C. A. , §1006(c)	3

Rules

S. E. C. Rules of Practice:	
Rule 10b-5	6
Rule 14(a)	3
Rule 15c 1-2	6
S. E. C. Rules of Practice (17 C. F. R. , §201.15(a) )	14
S. E. C. Rules of Practice (17 C. F. R. , §201.15(b) )	15

Text

Wellman, The Art of Cross-Examination (4th ed. 1932), p. 8	15
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IN THE UNITED STATES COURT OF APPEALS  
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ROBERT W. NEES,

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SECURITIES AND  
EXCHANGE COMMISSION,

Respondent.

---

BRIEF FOR PETITIONER

STATUTORY BASIS OF APPEAL

On July 14, 1967, by Order No. 34-8123 issued by respondent in a proceeding under §§15(b) and 15A of Securities and Exchange Act of 1934, petitioner was barred from association with a broker-dealer. Petitioner's Petition for Rehearing was denied by order of respondent dated November 1, 1967.

Thereafter petitioner filed a timely notice of appeal to this court.

This court has jurisdiction to review the orders of respondent pursuant to §9 of the Securities Act of 1933 and §25 of the Securities and Exchange Act of 1934.

(References herein are to pages of the transcript of





record unless otherwise indicated).

## STATEMENT OF THE CASE

### I

#### Proceedings to Date

On October 20, 1964, respondent issued its Order for Public Proceedings pursuant to §15(b) and §15A of the Securities and Exchange Act of 1934 (Order) to determine whether the broker-dealer registration of Century Securities Company should be revoked and whether certain persons including petitioner should be found to be a cause of the order of revocation of the aforementioned broker-dealer registration (1228-1232). The order alleged that during the period of January 1, 1963 to October 20, 1964 the respondents, singly and in concert, sold and delivered unregistered stock of JAYARK Films Corporation (JAYARK) and of Kramer-American Corporation (KAC) and made certain false and misleading statements in the offer and sale of such stock in wilful violation of the anti-fraud provisions of the Securities Act of 1933 and the Securities and Exchange Act of 1934.

Petitioner was duly served with the order for Public Proceedings and, pro se, filed a general denial (1259). On July 5, 1965, respondent Commission entered its Order for Hearing setting August 9, 1965 at Los Angeles, as the time and place of the hearing in such proceedings (1274), pursuant to which hearings were held before the Hearing Examiner on August 9, 25, 26 and 27, 1965, at which respondents thereto other than petitioner were



present, none represented by counsel (1-544). (Said hearings are hereinafter sometimes referred to as "the August hearings").

Said Order for Hearing was never served on petitioner, who had moved outside the State of California, and who, on learning of the August hearings, in September, 1965, moved to reopen the hearings for the purpose of interposing his defense (1361), which motion was granted by Order of the Hearing Examiner December 3, 1965 (1382), in which said examiner specifically found:

"There is, therefore, a failure of proof that Nees has been duly notified of the hearing within the meaning of Rule 6(e). It follows that he did not default. Absent default, Rule 12(d) of the Commission's Rules of Practice providing certain conditions precedent to the granting of a motion to set aside a default does not apply, "

and thereupon ordered further hearing.

Such hearing was set for February 14, 1966 (1547). In conjunction therewith petitioner files Request for Clarification of Record (1548, 1565-1566), contending that pursuant to Rule 14(a), Rules of Practice of the respondent Commission, and 5 U.S.C.A. 1006(c), nothing stood in the record against him by virtue of the hearings of August, 1965, and that he was entitled in effect, to a hearing de novo (1561-1562).

At the reopened hearing February 14, 1966, contrary to



such contentions, the Hearing Examiner held the record of the August hearings stood against petitioner (547; 557-559). Such record included certain stipulations entered into during the August hearings by and between counsel for the Division of Trading and Markets of respondent Commission, the Division and the respondents thereto then present (6; 558).

At the hearing of February 14, 1966, the Division relied upon the record of the August hearings as constituting its case against petitioner; presented two investor-witnesses; asked each if his testimony would be substantially similar to that given in the August hearings; and rested its case (559-562; 593). Petitioner's counsel of record and the counsel for other respondents then conducted cross-examination of said witnesses (562-592; 594-596). Petitioner testified in his own behalf (596-609).

At the conclusion of the Division's case as thus presented, petitioner restated his objections to admission of the prior record relating to the August hearings (609).

On August 31, 1966, the Initial Decision of the Hearing Officer was filed sustaining against petitioner certain of the allegations of the proceeding and barring him from being associated with a dealer or broker (1669-1705), which decision relied upon testimony adduced at the August hearings and evidence admitted at said hearings pursuant to stipulation of respondents thereto other than petitioner.

Pursuant to Order for Review of Initial Decision (1754), the respondent Commission ordered a review, and on July 14,



1967, release No. 34-8123, issued its Findings and Opinion, in effect affirming the Initial Decision as to petitioner (2000-2012).

In said release the respondent Commission stated (2010):

"The Hearing Examiner on December 3, 1965 concluded that there was a failure of proof that Nees had been duly notified of the hearing within the meaning of Rule 6(e) of our Rule of Practice, and ordered the hearings reopened to permit Nees to interpose a defense. Although Nees, in our opinion, was duly notified of the hearing, we think the examiner properly exercised his discretion in reopening the hearings. "

Petitioner then filed a Petition for Rehearing of such action by respondent Commission, asserting inter alia that his constitutional right of due process had been violated in that he had not been granted a hearing de novo upon the charges against him. On November 1, 1967, respondent Commission issued its Memorandum Opinion and Order Denying Rehearing (2013-2017), stating with reference to Petitioner's contention:

"Nees' argument with respect to the examiner's finding that he was not duly notified of the principal hearing - a finding with which we expressly disagreed - was discussed at length in our decision and our findings need not be repeated here. " (2016)





Prior to the initial decision of the Hearing Examiner, respondent acknowledged it would make no proposed findings that any of the individual respondents, including petitioner, had sold unregistered shares of Kramer-American stock (1638).

In his Initial Decision the Hearing Examiner concluded that petitioner had wilfully violated §§17(a) of the Securities Act and §§10(b) and 15(c)(1) of the Exchange Act and Rules 10b-5 and 15c 1-2 thereunder. (1702). The examiner ordered that petitioner be barred from being associated with a broker-dealer and imposed lesser sanctions upon the other respondents (1704).

In its Findings and Opinion, in effect affirming the Initial Decision, respondent Commission ordered that all individual respondents be barred permanently from being associated with a broker-dealer (2011). This sanction was not changed by the respondent Commission in its Order Denying Rehearing (2013-2017).

## II

### The Facts of This Case

As already indicated, the Hearing Examiner ruled that the evidence introduced at the August hearings would remain a part of the record at the reopened hearing held February 14, 1966 at the request of petitioner, and he was then given "an opportunity to respond to such evidence as ha[d] been introduced" (549; 549-559). Counsel for petitioner then took the position, as is now taken, that such record, which included stipulations not



entered into by petitioner, could not stand against petitioner. The Hearing Examiner then acknowledged that a "good part of the record of the JAYARK--that portion of the record--was introduced by stipulation" (558), but held his ruling binding petitioner to the record of the August hearings must stand against petitioner (559).

Counsel for petitioner again objected that such record constituted rank hearsay against petitioner (560). The Hearing Examiner then asked of said counsel whether he had read the testimony of two complaining witnesses as recorded at the August hearings and ordered the hearing of February 14, 1966 to proceed, giving counsel only the opportunity to cross-examine such witnesses on the basis of their prior testimony as so recorded (561). Consequently, counsel for the Division of Trading and Markets merely asked each of said witnesses whether, if he were to testify on the same subject matter that day, February 14, 1966, his testimony would be the same as it was in August of 1965, to which the reply was affirmative (562-593). Thereupon said witnesses were turned over to counsel for petitioner for cross-examination (562; 593).

Petitioner then took the witness stand and testified that he had not, to his knowledge, ever sold unregistered shares of stock of any company involved in the proceeding (616), and was not aware that any shares of stock of JAYARK sold by him were, in fact, unregistered stock (617). He further testified that he was then employed as a registered representative by another broker-



dealer (617); that he had worked for nine years as a registered representative (619); and that he went to work for the respondent broker-dealer in July of 1963.

Counsel for petitioner once more objected so far as petitioner was concerned to the evidence previously introduced at the August hearings, making the following statement:

"MR. EISENBERG: I now have before me the exhibits which were introduced, I take it, into evidence at the hearing which was conducted on August 9, 25, 26, 27, 1965, I would like to take this opportunity to object to each and every exhibit in there on the basis that there was either an improper or no foundation to their admission, that there was no oral or an improper authentication; there was no showing that the exhibits that were introduced were best evidence and that each and every exhibit in there is hearsay as to Respondent, Mr. Nees. "

The Hearing Examiner overruled such objection on the basis of his prior ruling as previously referred to herein (633).



## SPECIFICATION OF ERRORS RELIED UPON

The respondent Commission erred in denying petitioner's Petition for Rehearing, upon the ground that there was no substantial evidence to support the finding that petitioner had made false or fraudulent representations causing any investor to purchase JAYARK stock and the resultant order that petitioner be barred from association with any broker-dealer; the issuance of said order was in violation of petitioner's right to due process of law for failure to give him notice of the August hearing at which was adduced the substantial portion of evidence relied upon by the respondent Commission in said Findings and Order; said Findings and Order were and are contrary to law in that the same may not be entered against petitioner without support of evidence lawfully produced against him in his presence; the respondent Commission was without jurisdiction to make such findings and order in that the facts adduced purporting to establish such jurisdiction were in the form of evidence submitted and stipulations made at said August hearings in the absence of petitioner, without his consent, and without due notice to him of said hearing.





## QUESTIONS PRESENTED

### I

Was there evidence lawfully presented at the hearings conducted by respondent Commission sufficient to sustain a finding that petitioner had made false or fraudulent representations causing any investor to purchase JAYARK stock?

### II

In the totality of the circumstances surrounding petitioner's hearing and being the subject to an order barring him from association with any broker-dealer, was he deprived of his right to due process of law?

(a) Was the respondent Commission bound by the finding of the Hearing Examiner that petitioner did not receive due notice of the August hearings?

(b) If petitioner did not receive such due notice, was petitioner bound by the record of the August hearings, at which he was not present, or was he entitled to a hearing de novo?

## SUMMARY OF ARGUMENT

In the totality of the circumstances surrounding the hearings held before respondent Commission resulting in the issuance of a bar order against petitioner, petitioner did not receive a fair hearing within the concept of due process of law. Further, in the conduct of the hearings by the Hearing Examiner,



whose decision was confirmed by respondent Commission, rulings were made against petitioner which were contrary to law in substantial respects.

I

CONFIRMATION BY RESPONDENT COMMISSION OF THE HEARING EXAMINER'S RULINGS DENYING MOTIONS AND OVERRULING OBJECTIONS OF PETITIONER WAS ERRONEOUS AND PREJUDICIAL.

A. TESTIMONY ADDUCED AT THE AUGUST HEARINGS MAY NOT BE HELD AGAINST PETITIONER

Section 5(c) of the Administrative Procedure Act (5 U. S. C. A. §1004(c) ) provides, in pertinent part:

" . . . no such officer [Hearing Examiner] shall consult any person or party on any fact in issue unless upon notice and opportunity for all parties to participate. . . "

It is an uncontroverted fact recognized by the Hearing Examiner himself that petitioner was not served with notice of the August hearings. In his Order reopening the record (1382) the Hearing Examiner found that petitioner had left a change of address with the post office and that such fact obviated the possibility of any attempt at avoidance of service upon him. Thus, the failure of service upon petitioner could not be attributed to fault on his part. On the other hand, the Division could have



assured itself that service was made upon petitioner simply by undertaking the same inquiry of the Post Office Department which the Hearing Examiner described in a footnote to his Order reopening the record. Therefore, it can be concluded contrary to the opinion of the respondent Commission (2010) that the failure to accomplish service on petitioner was due to the Division's negligence.

That negligence and the Hearing Examiner's rulings binding petitioner to the record of the August hearings were prejudicial to the rights of petitioner. The motions made on his behalf respecting applicability of that record arose precisely because of his absence from the August hearings due to lack of notice. It would be almost amusing, if the consequences to him were not so drastic to reflect upon the Division's assertion, made on page 4 of its Response to Request for Clarification of Content of Record, that petitioner "has not been diligent" and that his assertion of his fundamental rights of due process is "untimely" (1555). To accept such assertions would render meaningless the writs and procedures on appeal made available to protect the basic right of due process. Yet it is apparent in the final analysis that the Hearing Examiner and respondent Commission did accept them.

It is recognized that strict rules for the admission of evidence in courts of law may be relaxed somewhat in an administrative proceeding. But fundamental fairness must be preserved. Rosedale Coal Co. v. Director of U.S. Bureau of Mines, 247 F.2d



299 (1957). Even in an administrative proceeding, one person cannot be held responsible for the actions and statements of another in the absence of conspiracy or agreement. In General Foods Corp. v. Brannan, 170 F.2d 220 (7th Cir. 1948), the Court, dealing with a complaint alleging manipulation under the Commodity Exchange Act, stated (at p. 225):

" . . . it is true, of course, as asserted by the government, that strict rules of procedure, including the admissibility of evidence, inherent in criminal and common law proceedings, are not applicable to administrative proceedings. But no court, so far as we are aware, and we do not propose to be the first, has held in an administrative proceeding or any other kind that one person can be held responsible for the actions and statement of another in the absence of a conspiracy or agreement."

The denial of the right of cross-examination and the basing of inference upon inference is not authorized even in the conduct of a hearing by an administrative officer, Automobile Sales Co. v. Bowles, 58 F.Supp. 469 (1945), nor can an administrative agency even limit the right of cross-examination unduly. Giant Food, Inc. v. F. T. C., 322 F.2d 977, 116 U.S.App.DC 277, cert. dismissed 84 S.Ct. 1121, 376 U.S. 967, 12 L.Ed.2d 82 (1963).

In the instant case, petitioner was denied completely the





right to cross-examine all but the two investor witnesses called to the re-opened hearing held February 14, 1966. When all is said and done it may be seen that it took the testimony of other witnesses, plus stipulations by the other parties plus evidence admitted without objection by the other parties all at the August hearings to constitute even a prima facie case against petitioner.

B. THE HEARING EXAMINER'S RULINGS  
RESPECTING THE RECORD AGAINST  
PETITIONER WERE ERRONEOUS UNDER  
THE RESPONDENT COMMISSION'S OWN  
RULES OF PRACTICE

---

Under the respondent Commission's own Rules of Practice, a deposition may be taken only after a showing that "a prospective witness may be unable to attend or may be prevented from attending a hearing, that his testimony is material and that it is necessary to take his deposition in the interest of justice." (S. E. C. Rules of Practice 17 C.F.R. , §201.15(a).) Provision is also made for notifying the other parties. The right to cross-examine a deponent, and to object to questions or evidence, are expressly assured at the time the deposition is taken. (S. E. C. Rules of Practice, 17 C.F.R. , §201.15(a).)

It is significant that the respondent Commission's Rules of Practice then go on to provide that a deposition, even though cross-examination is assured at the time the deposition is taken, may be admitted into evidence only if it can be shown that the witness is unavailable to testify at the hearing or, "upon application



and notice, that such exceptional circumstances as to make it desirable, in the interest of justice and with due regard to the importance of presenting the testimony of witnesses orally in open hearing, to allow the deposition to be used." (S. E. C. Rules of Practice, 17 C.F.R., §201.15(b).) [Emphasis added]

It appears obvious that in framing the foregoing provisions of its own Rules of Practice, the respondent Commission proceeded with three recognized principles in mind:

- a. The right to cross-examine at each stage of the proceeding at which testimony is taken, even as to a deposition which may never be used, must be preserved.
- b. The right to object to questions or evidence at each stage of the proceeding, even as to a deposition which may never be used, is essential to a fair trial.
- c. ". . . [T]he importance of presenting testimony of witnesses orally in open hearing. . . " is universally recognized as enabling the trier of fact to observe the demeanor of witnesses, to hear their tone of voice, to see their carriage, to listen for their pauses in answering questions, "to judge of their characters by their faces" <sup>1/</sup> while giving testimony.

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<sup>1/</sup> Wellman, The Art of Cross-Examination, p. 8 (4th Ed., 1932)



It is, likewise, the only means by which an  
adverse party can properly prepare for the  
ordeal of cross-examination. A transcript  
is but a poor substitute for oral testimony.  
The respondent Commissions's own Rules of  
Practice recognize this fundamental principle.

Petitioner clearly was denied these rights. In effect, the  
evidence admitted into the record as against him prior to the  
August hearings, either by stipulation of the other parties or  
without objection by the other parties, implicitly was held to be  
binding upon him, even though he was neither present nor repre-  
sented at the time, and no foundation for the admission of such  
evidence as against him was ever made. His objections to this  
procedure were summarily overruled by the Hearing Examiner  
and blithely ignored by the respondent Commission.

There is more than a touch of irony in the observation  
that, if the oral testimony elicited before petitioner became a  
participant in the later (August ) hearings and now being used  
against him, had been adduced by deposition, the Commission's  
Rules of Practice as shown would protect Nees from this negation  
of his fundamental rights to object to questions and to cross-  
examine at the time the testimony was adduced. Moreover, this  
observation is even more appropriate with respect to the evidence  
introduced without objection by other parties or stipulated into the  
record by other parties used to make out a case against petitioner.



The procedure employed mocks the standard of substantial justice and fair play which the Rules of Practice purport to represent.

"We hold that defendant's reception of evidence, out of the presence of plaintiffs and without notice to them or their attorneys, if proved, deprived plaintiffs of a fair hearing, in violation of due process under the 5th amendment to the constitution of the United States. . . . "

Brown-Pacific-Maxon Co. v. Toner,

255 F.2d 611 (7th Cir. 1968).

## II

THE FINDINGS OF FACT IN THE INITIAL DECISION AND FINDINGS AND OPINION OF RESPONDENT COMMISSION ARE CLEARLY ERRONEOUS

---

There was no proof of jurisdiction of or the falsity of any representation allegedly made by petitioner. Only two witnesses were called by the Division to testify at the second hearing. Both of these were investors who had testified for the Division at the August hearings. In substance, each in turn was asked by Division counsel whether he would testify to the same answers, if asked the same questions as at the original hearings; replied affirmatively; and was turned over for cross-examination.

The Court is respectfully urged to read carefully the testimony of these two witnesses upon cross-examination and to note





the contrast from their testimony at the original hearings. It will be observed that Book's testimony, relatively smooth and consistent at the original hearings, because confused and self-contradictory when cross-examined at the second hearing. Subtle but important and crucial distinctions in representations attributed to petitioner appeared upon cross-examination. The value of confrontation at the time direct testimony is elicited was never more vividly illustrated.

"We do not think the weight of the facts can attach very much importance to the testimony of a witness who testifies both ways on the same point." General Foods Corp. v. Brannan, 170 F.2d 220, 227 (7th Cir. 1948).

The only other witness, Heuvel, failed to make any assertion on cross-examination detrimental to petitioner.

No jurisdictional evidence was introduced at the second hearing. No proof of falsity was offered. No documentary evidence was offered. Yet the Hearing Examiner found no difficulty in attributing to petitioner facts introduced into the record at the first hearing upon stipulation of the other parties or in the absence of objection by the other parties.

This procedure, convenient though it may be for the Division to follow, lacks even a modicum of fairness.

"To experienced lawyers it is commonplace that the outcome of a lawsuit -- and hence the



vindication of legal rights -- depends more often on how the factfinder appraises the facts than on a disputed construction of a statute or interpretation of a line of precedents. Thus the procedures by which the facts of a case are determined assume an importance fully as great as the validity of the substantive rule to be applied. And the more important the rights at stake the more important must be the procedural safeguards surrounding those rights. "

Speiser v. Randall, 78 S. Ct. 1332, 357 U.S. 513,

2 L. Ed. 2d 1460 (1958), re-hearing den.

79 S. Ct. 12, 358 U.S. 860, 3 L. Ed. 2d 95.

### III

#### THE RESPONDENT COMMISSION WAS BOUND BY THE HEARING EXAMINER'S FINDING RE- SPECTING NOTICE TO PETITIONER

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As may be seen from the record, the respondent Commission in its Findings and Opinion affirming the Initial Decision of the Hearing Examiner, took note of the examiner's finding that petitioner had not been notified of the August hearings and then went on to state that in its opinion petitioner had been duly notified of such hearings but that the examiner had "properly exercised his discretion in re-opening the hearings.". (2010) In its Order Denying petitioner's request for rehearing respondent Commission



expressly disagreed with the finding of the Hearing Examiner (2016), so that it may well be said that the respondent Commission has almost blithely ignored the important and significant finding as to due notice.

It is submitted that the finding of the Hearing Examiner to the effect that petitioner had not been given due notice of the first four days of hearings (the August hearings) must stand despite the respondent Commission's attempt to brush it aside. In a proceeding to review an administrative order, the Court of Appeals cannot lightly brush aside findings of the trial examiner even though such findings were rejected by agency. United States Steel Company v. National Labor Relations Board, 196 F. 2d (1952). See Allentown Broadcasting Corporation v. Federal Communications Commission, 222 F. 2d 781 (1954); National Labor Relations Board v. Local 160 International Hod Carriers, Etc., 268 F. 2d 185 (1959).

It would appear that when the Hearing Examiner has taken into consideration the affidavits in support of petitioner's request to re-open the hearings as to him, directly heard the arguments of counsel in these respects, and made a finding of fact based thereon, the respondent Commission must, under the foregoing authorities be bound by such finding so far as the question of due notice is concerned. It is elementary that when an administrative agency decision is not supported by the record as a whole when Hearing Examiner's decision is included, the Appellate Court may reverse. Burton-Dixie Corporation v. Federal Trade Commission, 240 F. 2d 166 (1957).



#### IV

### IN THE TOTALITY OF THE CIRCUMSTANCES PETITIONER HAS BEEN DENIED FUNDA- MENTAL RIGHTS OF DUE PROCESS

---

The issues presented by the record are clear:

(1) If petitioner was not notified of the August hearings, as found by the Hearing Commissioner, should the record of such hearings (including stipulations affecting jurisdiction in which he did not join) have been admitted against him in the later (February, 1966) hearings?

(2) Even if the respondent Commission acted lawfully in overruling such finding by the Hearing Commissioner, should the record of the August hearings have been admitted against him in the later (February, 1966) hearings?

Petitioner has already submitted that based on the record a patent error was made by the respondent Commission resulting in violation of the most basic of constitutional rights to be accorded petitioner, his right to due process. It is incontrovertible that the Hearing Examiner expressly found petitioner had not been duly notified of the August hearings (which lasted four of the total of five days involved) yet admitted against him the full record of such hearings, at which petitioner was not present and at which stipulations concerning substantial matters were entered into in order to establish the case found against the petitioner by respondent Commission.

This compounding of error was further compounded by





the respondent Commission in its final position as taken in its Memorandum Opinion denying rehearing: that it disagreed with the Hearing Examiner's ruling that petitioner had not been duly notified of the August hearings.

It should be noted, too, that no attempt was made at the re-opened hearing of February 14, 1966, at which petitioner was finally present, to have him enter into the stipulations agreed to by the other respondents at the time of the August hearings. Such stipulations were essential to the establishment of a prima facie case against petitioner, and even if the record of the August hearings was properly held to stand against petitioner, he could not be bound by stipulations never proposed or agreed to by him.

Basic to the requirement of due process of law as under the Fifth Amendment to the Constitution of the United States, is the concept of fairness and reasonableness. It has been said that where "in the totality of the circumstances" the procedures were so unfair as to deprive petitioner of a fair trial, due process has been denied. Stoval v. Denno, 388 U.S. 293, 87 S.Ct. 1967 (1967); United States v. Meyers, 381 F.2d 814, 816-817 (1967). The question whether an administrative decision is supported by substantial evidence goes to the reasonableness of what the agency did on the basis of the evidence before it. J.A. Terteling & Sons, Inc. v. United States, 390 F.2d 926 (1968).

Surely it may be seen that in the context of this case, "in the totality of the circumstances", the action of the Hearing Examiner, despite his finding of lack of due notice, in admitting



the record of the August hearings against petitioner was unreasonable and unfair, and constituted a substantial violation of the rules of evidence. Worse, the ambivalent position asserted by respondent Commission in saying at one and the same time that the Hearing Examiner acted within his discretion in re-opening the hearings as to petitioner, and that in respondent Commission's opinion there had been due notice given, creates not only an aura of unfairness and unreasonableness, but of confusion and lack of the kind of precision required in law.

However one characterizes the action of the Hearing Examiner and of the respondent Commission, it seems clear, as a whole, that a mistake has been made by the respondent Commission. In such a situation, the Court of Appeals may vacate the findings of the administrative agency; in the case at hand it appears the court must do so. See Ng Yip Yee v. Barber, 267 F.2d 206 (1959).

### CONCLUSION

For the reasons stated, it is respectfully submitted that the order of respondent Commission barring petitioner from association with a broker-dealer should be reversed and the cause remanded, with an order directing a new hearing.

Respectfully submitted,  
SANDER L. JOHNSON  
Attorney for Petitioner



NO. 22488 ✓

IN THE UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT

R. MILO GILBERT,

Appellant,

vs.

UNITES STATES OF AMERICA,

Appellee.

---

APPELLANT'S REPLY BRIEF

---

APPEAL FROM  
THE UNITED STATES DISTRICT COURT  
FOR THE SOUTHERN DISTRICT OF CALIFORNIA  
CENTRAL DIVISION

---

EDWARD J. SKELLY

11044 McCormick Street  
North Hollywood, California

Attorney for Appellant

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EDWARD J. SKELLY

11044 McCormick Street  
North Hollywood, California

Attorney for Appellant





# TABLE OF AUTHORITIES

<u>Cases</u>	<u>Page</u>
In Re Ferguson, 233 Cal. App. 2d 79, 43 Cal. Rptr. 325 (1965)	8
Gilbert v. United States, 359 F. 2d 285 (9th Cir. )	2
Green v. United States, 355 U. S. 184 (1957)	5, 8
Ex Parte Lange, 18 Wall. 163, 21 L. Ed. 872 (1874)	4
Marano v. United States, 374 F. 2d 583 (1st Cir. )	7
Oksansen v. United States, 362 F. 2d 74 (8th Cir. 1966), cert. denied 385 U. S. 840	3
Patton v. North Carolina, 381 F. 2d 636 (4th Cir. 1967)	5, 6
People v. Grill, 151 Cal. 592, 91 Pac. 515	7, 8
People v. Henderson, 60 Cal. 2d 482, 35 Cal. Rptr. 77, 386 P. 2d 677 (1963)	7, 8
People v. Nanga-Parbet Ali, 50 Cal. Rptr. 751 (1967)	8
Ray v. United States, 372 F. 2d 80 (9th Cir. )	10, 11
Stroud v. United States, 251 U. S. 15, 64 L. Ed. 103, 40 S. Ct. 50 (1919)	6, 8
United States v. Adams, 362 F. 2d 210 (6th Cir. 1966)	3
United States v. Sacco, 367 F. 2d 368 (2nd Cir. 1966)	3
Walsh v. United States, 374 F. 2d 421 (9th Cir. 1967)	1, 8



N O. 2 2 4 8 8

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In Walsh v. United States, 374 F.2d 421, 426 (March 3, 1967), this Court held that:

" . . . Although we do not reach the question, it APPEARS LIKELY that a contrary result would run afoul of the CONSTITUTIONAL PROTECTION against double jeopardy. Ex parte Lange, supra; Green v. United States, supra . . . (Emphasis supplied by appellant)

The question before this Court today is not whether a greater punishment can be inflicted on a defendant on retrial after a reversal but whether a greater punishment has been inflicted on



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The question before this Court today is not whether a greater punishment can be inflicted on a defendant on retrial after a reversal but whether a greater punishment has been inflicted on



the appellant as a result of the count for count sentence at the first trial.

This Court, in Gilbert v. United States, 359 F. 2d 285, 288, rejected the appellant's assertion that "none of the charges was weighed independently, but rather the 'cumulative guilt' of the appellant in the case as a whole, as a gestalt, was the nature of the judgment reached." The Court further stated; "Certainly, the comments of the trial judge DO NOT BEAR OUT Gilbert's assertion." (Emphasis supplied by appellant)

Appellant urges that this Court, in Gilbert v. United States, supra, ruled that the Law of the Case" was that each count was treated independently, individually or as a single unit, in the finding of guilt. As such, the sentence imposed on appellant was also on a count for count basis.

Therefore, it becomes necessary only to examine whether on retrial the trial judge could increase the sentence on the individual counts, not on the multiplicity of counts as a general sentence and as the Government asks this Court to do when they state that "no greater punishment was in fact inflicted."

Appellant ACTUALLY COMMENCED service of the sentence imposed at the first trial. He was placed in the Los Angeles County Jail as Judge Yankwich continued a motion for bail pending appeal. Appellant did not ELECT NOT TO SERVE, as was required under the law at that time. He has received full credit for the time spent in jail before being released on bail, approximately one (1) week later. The time spent in the County Jail is





A PART AND PARCEL of any subsequent sentence which would be imposed at a retrial as a result of a reversal.

The Government's position that the citing of Oksansen v. United States, 362 F.2d 74 (8th Cir. 1966), cert. denied 385 U.S. 840; United States v. Sacco, 367 F.2d 368 (2nd Cir. 1966); and United States v. Adams, 362 F.2d 210 (6th Cir. 1966), is not in holding with appellant's position is, without question, in error and without merit. The Government has indulged itself in flights of pure fantasy and speculation in attempting to condone an arbitrary, capricious and unconstitutional act by the trial judge, designed purely to "punish" the defendant who has asserted his right to appeal, and successfully. In attempting to disqualify the above cited cases, the Government asks this Court to believe that a different situation exists insofar as the appellant's position of not permitting an increased sentence at retrial. In appellant's case, the sentence had commenced when appellant was remanded to the County Jail after sentence had been imposed. In each of the above-cited cases service of the sentence HAD COMMENCED. It makes no difference whether appellant served one (1) day, one (1) month or one (1) year before the reversal. He HAD COMMENCED SERVICE OF HIS SENTENCE.

In Adams, supra, the Court, at page 211, stated:

" . . . When the defendant was removed to the federal penitentiary, and started to serve his sentence, he was in jeopardy in the constitutional sense . . . "



In Ex Parte Lange, 18 Wall. 163, 21 L. Ed. 872 (1874),

the United States Supreme Court said:

" . . . It is the punishment that would legally follow the second conviction which is the real danger guarded against by the Constitution. But, if after judgment has been rendered on the conviction, and the SENTENCE OF THAT JUDGMENT EXECUTED on the criminal, he can be again sentenced on that conviction to another and different punishment, or to endure the same punishment a second time, is the constitutional restriction of any value? Is not its intent and its spirit in such a case as much violated AS IF A NEW TRIAL HAD BEEN HAD, AND ON A SECOND CONVICTION A SECOND PUNISHMENT INFLICTED?

" . . . The argument seems to us irresistible, and we do not doubt that the Constitution was DESIGNED as much TO PREVENT the criminal from being TWICE PUNISHED FOR THE SAME OFFENSE as from being twice tried for it. . . ." (Emphasis supplied by appellant)

If the appellee's theory is allowed to stand then one charged under law, who successfully appeals, is compelled to pay a terrible price for exercising his constitutional right to appeal. A coercion will now exist in this Circuit to forego the right to appeal in the fear of an increased punishment for seeking reversal.



In Patton v. North Carolina, 381 F.2d 636 (4th Cir. 1967),

Judge Sobeloff wrote:

" . . . This is like the 'grisly choice' disoutenanced in Fay v. Noia, 373 U.S. 391 (1963). 'The law should not, and in our judgment DOES NOT, place the defendant in such an incredible dilemma.' Green v. United States, 355 U.S. 184 (1957) . . . " (Emphasis supplied by appellant)

In Green v. United States, supra, 355 U.S. 184 (1957), the United States Supreme Court said:

" . . . (T)he import of the (District) Court's ruling was to condition his constitutional right to seek correction upon the risk of another sentence, then unforeseeable in nature and extent. THUS, THOUGH NOT SO INTENDING, THE COURT 'POTENTIALLY PENALIZED' HIM FOR ASSERTING THE PRIVILEGE. THIS THE LAW 'FORBIDS' . . . " (Emphasis supplied by appellant)

This Court is now faced with the "grisly choice" of allowing the present sentence, imposed at a retrial and increased on each individual count after THE FIRST SENTENCE HAD BEEN COMMENCED, to stand or to order a proper correction of the sentence to that of the original one, COUNT FOR COUNT, which CANNOT exceed one (1) year and one (1) day on each count.

The Government offered this Court a second point: that a



greater punishment MAY BE inflicted upon the defendant after retrial and relies SOLELY on the oft-cited, but OUTDATED, Stroud v. United States (1919), 251 U.S. 15, 64 L.Ed.103, 40 S.Ct. 50.

In Patton v. North Carolina, supra, 381 F.2d 636 (4th Cir. 1967), Judge Sobeloff succulently states:

" . . . From a reading of the Stroud opinion, it appears that the case WAS ARGUED to the Court on the THEORY that the defendant was put twice in jeopardy for the same offense merely by being retried on an indictment for first degree murder. THERE IS NO INDICATION THAT THE COURT WAS 'PRESENTED' WITH THE ARGUMENT THAT THE RISK OF AN 'INCREASED PENALTY' ON RETRIAL VIOLATES THE DOUBLE JEOPARDY CLAUSE BY BEING A DOUBLE PUNISHMENT FOR THE SAME OFFENSE. Stroud thus stands for NO MORE than the well-established proposition that the double jeopardy clause does not entitle a defendant who successfully attacks his conviction to absolute immunity from reprosecution . . . " (Emphasis supplied by appellant)

One, certainly, must give substantial weight to Judge Sobeloff's opinion. It is a work of considerable effort and meaning and it embodies the very principles of double jeopardy as to the protection offered a defendant AGAINST an increased sentence





after a reversal and retrial.

In the First Circuit, the Court stated in Marano v. United States, 374 F.2d 583, 585:

" . . . As we have recently held, a defendant's right of appeal MUST BE UNFETTERED . . . So far as sentence is concerned, this principle cannot be restricted to those situations in which a defendant, in deciding whether to appeal, must contemplate the certainty of an increased sentence if he obtains a new trial and is convicted again. Not only must he NOT BE FACED with such certainty . . . he likewise SHOULD NOT HAVE TO FEAR even the POSSIBILITY that his exercise of his right to appeal will result in the imposition of a direct penalty for doing so . . . " (Emphasis supplied by appellant)

The Court, in Marano v. United States, Ibid, refutes the Government's point that the total of five (5) years appellant is now serving is not an increase in the punishment.

Justice Traynor, in People v. Henderson, 60 Cal.2d 482, 35 Cal.Rptr. 77, 386 P.2d 677 (1963), speaking for the majority held that "an accused MAY NOT BE GIVEN a more severe sentence on retrial obtained after a successful attack on his first conviction." The Court, in overruling the case of People v. Grill, 151 Cal. 592, 91 Pac. 515, pointed out that the United States Supreme Court had held that the double jeopardy clause precluded



convicting a defendant of a higher degree of a crime after he had secured a reversal of his conviction of the lower degree. As such, the Court (Justice Traynor) analogized that case, Green, supra, to the instant situation, Henderson, supra, and declared that since the Green case and a California case following that Supreme Court decision, Green has now established that a reversed conviction of a lesser degree of a crime precludes conviction of a higher degree on retrial, the RATIONALE of the case of Stroud v. United States, supra, and People v. Grill, supra, HAS BEEN VITIATED. (See In Re Ferguson, 233 Cal.App.2d 79, 43 Cal.Rptr. 325 (1965); People v. Nanga-Parbet Ali, 50 Cal.Rptr. 751, 754 (1967).

When the appellant suffered a first conviction the punishment was one (1) year and one (1) day, on each count, to run consecutively. Appellant ACTUALLY COMMENCED SERVICE OF THAT SENTENCE, so that when the reversal came he would be ENTITLED TO CREDIT spent in jail if, on retrial, another conviction resulted.

This Court has joined, in Walsh v. United States, supra, with the First, Second, Fourth, Fifth, Sixth, Seventh and Eighth Circuits in ruling that a sentence CANNOT be increased on retrial, once it has commenced. The Draconian doctrine which Judge Carr set forth, and is now urged by the Government, is hardly realistic nor is it legal. The rationale presented by the Government cannot be held to be anything but sheer sophistry.

True, thirty-one (31) years and thirty-one (31) days is far greater than five (5) years. But this is as a whole, as a general sentence. This Court ruled that each count was weighed INDE-



PENDENTLY. As such, each count had to receive a sentence independent of the other. Judge Yankwich chose to run the sentences consecutively; this was his choice. Judge Carr chose to run the sentences concurrently; this was his choice. But Judge Carr could not increase EACH sentence on the individual counts. To effect the sentence he had in mind, five (5) years, he had to sentence appellant to one (1) year and one (1) day, consecutively, on five (5) counts. This he did not do. His sentence, therefore, was illegal since it was against the "Law of the Case", set forth by this Court.

### CONCLUSION

In essence, the sum and substance of this entire argument and appeal summarizes to a simple question:

Can a defendant sentenced separately on a multi-count indictment to consecutive sentences of one (1) year and one (1) day on each count, and who successfully obtains reversal of those convictions and on retrial is acquitted of many of the original counts, has others dismissed, but is convicted of some counts involved in the original conviction, and actually commenced service of the original sentences before he was admitted to bail pending the first appeal, incur a longer sentence on EACH of the retried counts merely because those longer sentences were to be served concurrently and, therefore, did not exceed the



original sentences made consecutively?

It is submitted to this Court that, when the component parts of the issues are broken down and examined, the answer must be a clear and resounding NO.

To quote the appellee, in Ray v. United States, 372 F.2d 80, 83, this Court stated:

" . . . When the District Court imposes sentence on a multiple count indictment, it is HIGHLY DESIRABLE that he deal SEPARATELY with EACH COUNT. See Benson v. United States, 332 F.2d 288 (5th Cir. 1964). . . . In McDowell v. Swope, 183 F.2d 856 (9th Cir. 1960), this Court stated at page 858:

' \* \* \* the loose practice of imposing a general sentence is definitely to be DISCOURAGED. '

. . . We believe it appropriate at this time to ISSUE a SIMILAR ADMONITION . . . (Emphasis supplied by appellant)

From a detailed reading of appellee's brief, page 10, it becomes quite evident that they have misquoted the Ray case under sentences one (1) through four (4). Nowhere in the Ray case can appellant find the words:

" . . . That the trial court need not treat the various counts of the indictment separately at the time of sentencing is evidenced further by the fact that the court





may impose a general sentence covering all counts,  
rather than an individual sentence for each count . . ."

It becomes more and more evident that, after a thorough reading of the appellee's brief, the Government has supported appellant's claim before this Court.

This Court has ruled that increased punishment should not be imposed, as well, and has, as evidenced by the Ray case, admonished the lower courts for exactly what is now before this Court.

This Court now has the opportunity to awaken the awareness of the ideal of equal justice under law.

If this ruling, as set forth by Judge Carr, is now permitted to stand, the Court may escape the prohibition from harsher penalty after retrial by merely changing the total cumulative sentence where more than one (1) count is involved.

The present sentence was harsher for no discernible reason. This WAS NOT a case where additional charges were had at the retrial. If anything, the counts were far less. This WAS NOT a case where new evidence was presented. This WAS NOT a case where the sentencing judge had new evidence as to the pre-sentence investigation report. It was a case where the sentence was increased as a PENALTY for asserting the right of appeal successfully.

Appellant was originally arrested on January 2, 1959 and was released on bond pending trial on January 5, 1959. Upon conviction after his first trial, he was sentenced on January 22, 1960 and was remanded to custody immediately and commenced serving



his sentence. Subsequently, on or about January 28, 1960 he was released on bond pending appeal; and resumed serving his sentence on December 5, 1966.

Appellant is now serving the sentence which started after the first trial. He returned to custody on December 5, 1966. True, it is not the same sentence but SERVICE HAD COMMENCED. By this very fact, he is PROTECTED AGAINST AN INCREASED SENTENCE at retrial under the Double Jeopardy clause.

Appellant respectfully and strongly urges that he HAS NOW SERVED WELL BEYOND the one (1) year and one (1) day, and thus he HAS COMPLETED HIS LEGAL SENTENCE.

HE IS NOW ENTITLED TO HIS FREEDOM.

Respectfully submitted,  
EDWARD J. SKELLY  
Attorney for Appellant



CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

/s/      Edward J. Skelly  
\_\_\_\_\_  
EDWARD J. SKELLY



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APPELLEE'S BRIEF

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WM. MATTHEW BYRNE, JR.,  
United States Attorney,  
ROBERT L. BROSIQ,  
Assistant U. S. Attorney,  
Chief, Criminal Division,  
JAMES E. SHEKOYAN,  
Assistant U. S. Attorney,

1200 U. S. Court House  
312 North Spring Street  
Los Angeles, California 90012

Attorneys for Appellee,  
United States of America.

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United States Attorney,  
ROBERT L. BROSIO,  
Assistant U. S. Attorney,  
Chief, Criminal Division,  
JAMES E. SHEKOYAN,  
Assistant U. S. Attorney,

1200 U. S. Court House  
312 North Spring Street  
Los Angeles, California 90012

Attorneys for Appellee,  
United States of America.



TOPICAL INDEX

	<u>Page</u>
I        JURISDICTIONAL STATEMENT	1
II       RULE INVOLVED	2
III      STATEMENT OF THE CASE	2
IV      ISSUES PRESENTED	3
V       ARGUMENT	4
A     THE TRIAL COURT MAY IMPOSE A GREATER SENTENCE FOLLOWING RETRIAL FOR THE SAME OFFENSE	4
B     ASSUMING ARGUENDO, THE COURT MAY NOT INCREASE THE SENTENCE FOLLOWING RETRIAL FOR THE SAME OFFENSE, THE SENTENCE IMPOSED BY THE TRIAL COURT AFTER THE SECOND TRIAL WAS NOT GREATER THAN THE SENTENCE IMPOSED AFTER THE FIRST TRIAL	9
VI      CONCLUSION	11
CERTIFICATE	12



## TABLE OF AUTHORITIES CITED

<u>Cases</u>	<u>Page</u>
Green v. United States 355 U.S. 184 (1957)	6
Marano v. United States 374 F.2d 583 (1st Cir. 1967)	7
Oksanen v. United States 362 F.2d 74 (8th Cir. 1966) cert. denied 385 U.S. 840	4
Ray v. United States 372 F.2d 80 (9th Cir. 1967)	10
Stroud v. United States 251 U.S. 15 (1919)	6, 7
United States v. Adams 362 F.2d 210 (6th Cir. 1966)	4, 5
United States v. Gebhart 90 F.Supp. 509 (D.C. Neb. 1950)	10
United States v. Hough 157 F.Supp. 771 (D.C. S.D. Calif. 1957)	5
United States v. Russell 378 F.2d 808 (3rd Cir. 1967)	7, 8
United States v. Sacco 367 F.2d 368 (2nd Cir. 1966)	4, 5

### Codes

Title 18 United States Code §1001	2, 3
Title 26 United States Code §7206(2)	2, 3
Title 28 United States Code §1291	1
Title 28 United States Code §1294	1

### Rules

Federal Rules of Criminal Procedure, Rule 35	1, 2, 3
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APPELLEE'S BRIEF

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I

JURISDICTIONAL STATEMENT

This appeal is from an order of the United States District Court for the Central District of California on September 18, 1967, denying appellant's motion pursuant to Rule 35 of the Federal Rules of Criminal Procedure to correct a sentence imposed on him on September 23, 1963. The jurisdiction of the District Court was predicated upon Rule 35, Federal Rules of Criminal Procedure. This Court has jurisdiction under Title 28, United States Code, Sections 1291 and 1294.





## II

### RULE INVOLVED

Rule 35, Federal Rules of Criminal Procedure, provides as follows:

"The court may correct an illegal sentence at any time . . . ."

## III

### STATEMENT OF THE CASE

On January 22, 1960, before United States District Judge Leon J. Yankwich in the United States District Court for the Southern District of California, Central Division, the appellant was convicted on thirty-one counts for violations of Title 26, United States Code, Section 7206(2) and Title 18, United States Code, Section 1001. It was the judgment of the Court that the appellant be sentenced to a term of one year and one day on each count with the sentences to run consecutively, making a total sentence of thirty-one years and thirty-one days [C. T. 2]. <sup>1/</sup>

The Court of Appeals for the Ninth Circuit reversed twenty-nine counts of the judgment, and the United States Supreme Court reversed the remaining two counts. Thereafter, in 1963, before United States District Judge, Charles H. Carr, the appellant was

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<sup>1/</sup> "C. T. " refers to Clerk's Transcript.



tried again on the same thirty-one counts charging violations of Title 26, United States Code, Section 7206(2) and Title 18, United States Code, Section 1001. On September 23, 1963, the appellant was convicted on twelve counts charging violations of Title 26, United States Code, Section 7206(2), and on three counts charging violations of Title 18, United States Code, Section 1001. It was the judgment of the Court that the appellant be sentenced to a term of three years on each of the twelve counts charging violations of Title 26, United States Code, Section 7206(2), and five years on each of the three counts charging violations of Title 18, United States Code, Section 1001. It was the order of the Court that the sentences on all fifteen counts run concurrently, making a total imprisonment of five years [C. T. 3].

On August 31, 1967, the appellant filed a motion with the United States District Court pursuant to Rule 35 of the Federal Rules of Criminal Procedures alleging that the sentence of the Court on September 23, 1963, was illegal to the extent it exceed the term of one year and one day as imposed on each count after the initial trial [C. T. 4]. On September 18, 1967, the District Court denied appellant's motion [C. T. 24]. On September 27, 1967, the appellant lodged with the District Court a notice of appeal.

#### IV

#### ISSUES PRESENTED

A. Whether the trial court may impose a greater sentence following retrial for the same offense.



B. Whether the trial court in fact imposed a greater sentence after retrial.

V

ARGUMENT

A. THE TRIAL COURT MAY IMPOSE A  
GREATER SENTENCE FOLLOWING  
RETRIAL FOR THE SAME OFFENSE.

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Whether a greater sentence can be imposed following a retrial for the same offense appears to be an issue of first impression in this Circuit.

The appellant has cited in his brief several cases from other Circuits which purport to disallow increasing punishment after retrial for the same offense.

Oksanen v. United States, 362 F.2d 74

(8th Cir. 1966), cert. denied 385 U.S. 840;

United States v. Sacco, 367 F.2d 368

(2nd Cir. 1966);

United States v. Adams, 362 F.2d 210

(6th Cir. 1966).

However, on close examination of each of these cases it is revealed that no retrial after a reversal of convictions was involved. In Oksanen, the defendant was successful in having his sentence set aside because of the lack of presence of counsel at the time of sentencing. At the time of resentencing, the defendant had already



served the sentence originally imposed. However, the court imposed an additional sentence of three years probation. The Court of Appeals for the Eighth Circuit held the additional sentence to be double jeopardy and therefore, unlawful.

In Sacco, the defendant was sentenced to five years on Count One and seven years on Count Two of a two-count indictment, the sentences to run concurrently. The maximum permissible sentence on Count One was ten years, and on Count Two, five years. After the defendant had started serving his sentence, the trial court sought to transpose the sentences on the two counts. The Court of Appeals for the Second Circuit held that since the defendant had already started serving a valid sentence under Count One, it would be double jeopardy to increase this sentence.

In Adams, the defendant was sentenced to ten years on Count Three and one year on each of the remaining four counts of a five-count indictment, the sentences to run concurrently. The maximum permissible sentence on Count Three was five years. After the defendant began serving his sentence, the court reduced the sentence on Count Three to one year and increased the sentence on Count Two to ten years. The Court of Appeals for the Sixth Circuit held that the increase of the valid sentence on Count Two constituted double jeopardy.

The appellant also cites United States v. Hough, 157 F. Supp. 771 (D. C. S. D. Calif. 1957) in support of his position. In Hough, the District Court merely said that if the initial sentence is valid, increasing the sentence on resentencing is unlawful and void.





In none of the above-mentioned cases cited by the appellant is the factual situation anywhere near similar to the facts in the case at bar. In none of these cases was there a reversal of the conviction and a retrial on the same offenses before the increased sentence was imposed.

The appellant also relies upon Green v. United States, 355 U.S. 184 (1957) in contending that a sentence is illegal where it is more severe in the second trial than in the first trial. However, the factual situation in the Green case is also quite distinct from the facts in the instant case. In the first trial in the Green case the jury was authorized to find the defendant guilty of first or second degree murder. The jury found the defendant guilty of second degree murder and upon the defendant's appeal, the case was reversed and remanded. At the subsequent new trial, the defendant was found guilty of first degree murder. On appeal, the United States Supreme Court held that after the first trial there was an implicit acquittal of the defendant as to first degree murder, and therefore the prosecution for first degree murder in the second trial constituted double jeopardy. First degree murder and second degree murder are two distinct crimes. In the instant case, however, the offenses for which the defendant was convicted in the second trial were identical to those in the first trial.

The case of Stroud v. United States, 251 U.S. 15 (1919) clearly supports the imposition of a greater punishment following retrial for the same offense. In the Stroud case the defendant was found guilty of first degree murder and sentenced to life



imprisonment at the first trial. Upon the defendant's appeal, the conviction was reversed and the defendant was retried for first degree murder. Upon conviction at the second trial the death penalty was imposed upon the defendant. The Supreme Court held, upon appeal, that the defendant, when retried for the same offense, could receive the death penalty sentence and this did not constitute double jeopardy. Therefore, Stroud clearly holds that on retrial of the defendant for the same offense a greater sentence can be imposed.

In further support of the appellee's contention that a greater punishment can be imposed following retrial for the same offense is United States v. Russell, 378 F.2d 808 (3rd Cir. 1967). In Russell, the Court differs with the contrary holding in Marano v. United States, 374 F.2d 583 (1st Cir. 1967), to the effect that a defendant "should not have to fear even the possibility that his exercise of his right to appeal will result in the imposition of a direct penalty for so doing." The court in Russell states:

"We differ with the court's opinion for the reason that we cannot properly speculate that the court certainly will increase the sentence, after a new trial. To so hold would seem to trespass the integrity of the trial judge who, upon hearing all the evidence, with the whole panorama of defendant's crime laid out before him, conscientiously passes sentence in accordance therewith. . . . The sentence thus imposed by the trial judge cannot, in



any sense, be said to be for [the defendant's] appealing, unless we again attribute to him a base motive - penalizing [the defendant] for his appeal, conduct unworthy of the name of judge - rather than for his weighing and evaluating the measure defendant's crime and passing sentence thereon. . . ."

In Russell, the court further states:

"In Robinson v. Johnston, D.C., 50 F. Supp. 774, one Robinson, a prisoner at Alcatraz, filed a petition for habeas corpus in 1939, alleging that he had not been represented by legal counsel and was sentenced under the Lindberg Act for the crime of kidnapping. A new trial was granted, counsel obtained for him, the jury convicted him and the court sentenced him to death. The sentence was affirmed by the Circuit Court of Appeals, Robinson v. United States, 144 F.2d 392, 393, and by the Supreme Court of the United States at 324 U.S. 282, 65 S. Ct. 666, 89 L.Ed. 629. Undoubtedly, it would therefore seem to be the rule in the federal system that a trial judge, when a new trial is ordered, may impose a sentence greater than one he had earlier vacated, and that it is unnecessary to articulate the reason for any differentiation in the term of the sentence."



The appellee contends that Stroud v. United States is dispositive of this issue.

- B.      ASSUMING ARGUENDO, THE COURT MAY NOT INCREASE THE SENTENCE FOLLOWING RETRIAL FOR THE SAME OFFENSE, THE SENTENCE IMPOSED BY THE TRIAL COURT AFTER THE SECOND TRIAL WAS NOT GREATER THAN THE SENTENCE IMPOSED AFTER THE FIRST TRIAL.
- 

The appellant's allegation that his sentence was increased after the second trial is defeated by the facts. At the first trial appellant was convicted on thirty-one counts and was sentenced for a term of imprisonment of one year and one day on each count, with the sentences to run consecutively. Thus, the appellant was sentenced to a total term of imprisonment of thirty-one years and thirty-one days. After the second trial, the appellant was sentenced to a term of imprisonment of three years on each of twelve counts and five years on each of three counts, with the sentences on all counts to run concurrently. Therefore, the total sentence imposed after the second trial was for a maximum term of imprisonment of five years.

The appellant contends that for the purposes of sentencing, the various counts of the indictment may not be treated together. To extend this argument to its logical conclusion, the appellant is in effect saying that the trial court may not impose concurrent sentences. This is obviously not the law, nor would the appellant





want it to be. If such were the law, the appellant would now be asking, in effect, that his original sentence of thirty-one years and thirty-one days be corrected to fifteen years and fifteen days.

Although no case decided by the Court of Appeals for any Circuit has been found that discusses the point, it is apparently the law that a sentence imposed at a single session upon a multiple count indictment is a single judicial act, not a succession of separate judgments.

United States v. Gebhart, 90 F. Supp. 509  
(D.C. Neb. 1950).

That the trial court need not treat the various counts of the indictment separately at the time of sentencing is evidenced further by the fact that the court may impose a general sentence covering all counts, rather than an individual sentence for each count, although it is highly desirable that the court deal separately with each count.

Ray v. United States, 372 F.2d 80  
(9th Cir. 1967).



VI

CONCLUSION

For the reasons stated herein, the District Court's order of September 18, 1967, denying appellant's motion to correct sentence, should be affirmed.

Respectfully submitted,

WM. MATTHEW BYRNE, JR.,  
United States Attorney,

ROBERT L. BROSIO,  
Assistant U. S. Attorney,  
Chief, Criminal Division,

JAMES E. SHEKOYAN,  
Assistant U. S. Attorney,

Attorneys for Appellee,  
United States of America.



### CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

/s/ James E. Shekoyan  
JAMES E. SHEKOYAN



N O. 2 2 4 8 8

IN THE UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT

R. MILO GILBERT,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

---

APPELLANT'S OPENING BRIEF

---

APPEAL FROM  
THE UNITED STATES DISTRICT COURT  
FOR THE SOUTHERN DISTRICT OF CALIFORNIA  
CENTRAL DIVISION

---

EDWARD J. SKELLY

11044 McCormick Street  
North Hollywood, California

Attorney for Appellant

**FILED**

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EDWARD J. SKELLY

11044 McCormick Street  
North Hollywood, California

Attorney for Appellant



## TOPICAL INDEX

	<u>Page</u>
JURISDICTION	1
STATEMENT OF THE CASE	2
SPECIFICATION OF ERROR	4
ARGUMENT	5
CERTIFICATE	17



# TABLE OF AUTHORITIES CITED

<u>Cases</u>	<u>Page</u>
Benson v. United States (5th Cir. 1964) 332 F.2d 288	7, 12, 13, 15
Browning v. Crouse (10th Cir. 1966) 356 F.2d 178	7
Gilbert v. United States (9th Cir. 1966) 359 F.2d 285, cert.den. 385 U.S. 882	3, 11
Gilbert v. United States 370 U.S. 650, 8 L.Ed.2d 750, 82 S.Ct. 1399	2
C.F. Gilbert v. United States (9th Cir. 1961) 291 F.2d 586	2
Gilinsky v. United States (9th Cir. 1964) 335 F.2d 914	2
Green v. United States (1957) 355 U.S. 184	8
Kennedy v. United States (9th Cir. 1964) 330 F.2d 26	10
Magliano v. United States (4th Cir. 1964) 336 F.2d 817	2
McDowell v. Swope (9th Cir. 1950) 183 F.2d 856	6
Milam v. United States (5th Cir. 1965) 341 F.2d 956	16
Oksanen v. United States (8th Cir. 1966) 362 F.2d 74, cert.den. 385 U.S. 840	9
People v. Henderson 60 Cal.2d 482, 35 Cal.Rptr. 77, 386 P.2d 677	8
Redfield v. United States (9th Cir. 1963) 315 F.2d 76	2
Robbins v. United States (9th Cir. 1965) 345 F.2d 930	1, 7





United States v. Adams (6th Cir. 1966) 362 F.2d 210	5, 14
United States v. Hough 157 F.Supp. 771	8
United States v. Lynch (7th Cir. 1947) 159 F.2d 198	7
United States v. Machibroda (6th Cir. 1964) 338 F.2d 947	1, 15
United States v. Magliano (4th Cir. 1964) 336 F.2d 817	15
United States v. Sacco (2nd Cir. 1966) 376 F.2d 368	10
Wilson v. United States (10th Cir. 1962) 310 F.2d 879	2

#### Codes

18 U.S.C. §1001	11, 12
26 U.S.C. §7206	12
26 U.S.C. §7606(2)	3
28 U.S.C. §2255	1

#### Rules

Federal Rules of Criminal Procedure, Rule 35	1, 3, 7, 15
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IN THE UNITED STATES COURT OF APPEALS  
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---

APPELLANT'S OPENING BRIEF

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JURISDICTION

This action is appealed pursuant to Rule 35 of Federal Court Rules of Criminal Procedure which rule, in part, states "The Court may correct an illegal sentence at any time . . . "

The motion under Rule 35 is complimentary to a motion under 28 U. S. C. 2255, however, where there is alleged illegality in the sentence as opposed to illegality in the conviction upon which the sentence rests. Rule 35 is the applicable procedure.

Robbins v. United States (9th Cir. 1965),

345 F. 2d 930, 933;

United States v. Machibroda (6th Cir. 1964),

338 F. 2d 947, 949;



Magliano v. United States (4th Cir. 1964),

336 F. 2d 817, 823;

Gilinsky v. United States (9th Cir. 1964),

335 F. 2d 914, 915, 916-17;

Redfield v. United States (9th Cir. 1963),

315 F. 2d 76, 80-1;

Wilson v. United States (10th Cir. 1962),

310 F. 2d 879.

Such a motion is, of course, concededly one to be determined strictly on the record as it exists at the time of the motion, and therefore defendant has confined himself to matters appearing of judicial record.

Gilinsky v. United States, supra, 335 F. 2d at 916.

#### STATEMENT OF THE CASE

Defendant and appellant herein was originally charged in a 35 count indictment charging tax fraud.

Defendant below was convicted on 31 counts of the original indictment and acquitted on 4. The Ninth Circuit Court reversed 29 of the 31 convictions, following which the Supreme Court reversed the remaining 2.

Gilbert v. United States, 370 U. S. 650,

8 L. Ed. 2d 750, 82 S. Ct. 1399;

C. F. Gilbert v. United States (9th Cir. 1961),

291 F. 2d 586.



The Court record discloses that on each of the 31 count convictions a sentence was imposed of one year and a day.

Defendant, thereafter, was retried on the original charges (counts) as set forth above, many of which counts were dismissed either before or during trial.

The defendant below was acquitted on four counts and convicted on 12 counts of violation of Title 26 U. S. C. §7606(2), all of which individual counts were included within the issues of the original trial as identical counts, and which counts were reversed by the 9th Circuit Court or the United States Supreme Court.

Thereafter, when the trial court imposed sentence after the second trial, the court increased the original sentences (which were reversed by the 9th Circuit and the Supreme Court) from one year and a day to three years and five years respectively, but with each sentence to run concurrently as opposed to the original sentences which were to run consecutively.

Appeal was denied (Gilbert v. United States, 359 F. 2d 235; Certiorari denied 385 U. S. 82).

Defendant is now incarcerated in Federal Prison serving the sentences as set forth above.

Prior to this appeal defendant below petitioned the District Court pursuant to Rule 35 of the rules of Federal Crime Procedure to correct an illegal sentence. This motion was denied.

Thereafter, defendant, on November 13, 1967, moved the trial court for bail pending appeal of the denial of the court to correct the illegal sentence, and for permission to proceed in





forma pauperis. The matter of bail pending appeal was considered by the District Court, the Honorable Charles Carr presiding. Bail was denied on the grounds that no substantial question of law was presented by defendant, and that the sentences imposed were legal. The court further held that the attempted motion to correct the sentence was frivolous.

### SPECIFICATION OF ERROR

Whether a trial court can impose greater sentences on individual counts upon retrial than the same court imposed on identical counts after conviction in the first trial.

Defendant below is attempting to correct the sentences imposed in the second trial to 1 year and a day which was the sentence originally imposed on the same counts.

That each sentence for each separate offense must be treated as a separate entity and, therefore, in this case, sentence on each count which exceeds 1 year and a day is illegal. This, it is contended, entitles defendant below to a correction of his sentence on each count to a year and a day since the sentences are being served concurrently that makes a total period imprisonment of one year and a day. Defendant has served this amount of time and therefore alleges he is entitled to release.

It is submitted that it is settled law that in correcting a sentence the court may not alter it so that the sentence is to be served consecutively instead of concurrently, even for the purpose of bringing the sentence into accord with the trial judge's intention.



Lastly, whether a more severe sentence may be imposed in a conviction after retrial than was imposed after the original trial on individual counts.

### ARGUMENT

This motion presents an apparently simple question, but one which (so far as defendant can ascertain) has not been previously litigated on appeal:

Whether a defendant sentenced separately on a multi-count indictment to several consecutive sentences of a year and a day on each, and who successfully obtains reversal of those convictions (primarily on constitutional grounds), and who on retrial is acquitted of many of the charges, has some dismissed, but is convicted of some of the counts involved in the original conviction, may incur a longer sentence (either three years or five years each) on each of the second-conviction counts, merely because those longer sentences are to be served concurrently. "

It is submitted that, despite the apparent first-impression nature of that question, when the component parts of the issue are broken down and examined under pertinent authority, the answer is clear:

Each sentence for each offense must be treated as a



separate entity for this purpose and, therefore, that portion of the sentence on each count which exceeds a year and a day is illegal.

CLARIFICATION: THAT WHICH DEFENDANT IS NOT URGING.

It is sometimes appropriate, particularly in a relatively novel case, to clarify certain matters which are not urged.

Defendant is not contending that either the first trial court or the second trial court lacked initial discretion to determine what period of imprisonment would be appropriate punishment for the offenses of which defendant was convicted. He does contend, however, that, as to each offense, that discretion could not be exercised in a manner which had the result of imposing a more severe sentence for that conviction on the second trial than the sentence imposed on that conviction at the end of the first trial.

Similarly, defendant does not contend that the District Courts are without jurisdiction to elect between concurrent and consecutive sentences initially. He does contend that the concurrent or consecutive serving of the sentence is immaterial to this issue and that each separate criminal conviction must be viewed as a single, separate entity in determining whether a more severe sentence has been imposed in the second trial, following a successful appeal from the first sentence.

" 'Sentencing' is not a 'game in which a wrong move by the judge means immunity for the prisoner.' "

McDowell v. Swope (9th Cir. 1950), 183 F.2d 856,



As the Ninth Circuit there held, there is no immunity, but only a right to have the sentence reduced to that which could lawfully have been imposed, and to finish serving that lawfully-imposed sentence.

Ibid;

Cf. , Robbins v. United States, supra, 345 F. 2d  
at 933.

As the Fifth Circuit has phrased it, even though a sentence must be reduced under Rule 35 "under no stretch of the imagination does this affect the conviction or anything other than the sentence."

Benson v. United States (5th Cir. 1964),

332 F. 2d 288, 289;

Cf. , United States v. Lynch (7th Cir. 1947),

159 F. 2d 198, 199 [1 and 2].

Only the portion in excess of that legally permissible is subject to attack.

Browning v. Crouse (10th Cir. 1966),

356 F. 2d 178, 180.

Here, then, defendant is asserting no claims concerning that portion of the present sentence on those counts which is the same as the sentence originally imposed, i. e. , a year and a day. He alleges he has served that period and therefore he is entitled to release. He seeks an order correcting the sentence by reducing it to one year and a day as to each offense.





The question, then, is simplified down to: Whether the court, in the second trial, was empowered to sentence defendant to three-year or five-year terms for the self-same offenses on which a year and a day sentence had been imposed in the first trial. The answer is clearly that the court could not.

Manifestly, three years is longer than one year. It is now settled beyond argument that, at least in the federal courts,<sup>1/</sup> a defendant who successfully obtains appellate reversal of a first conviction and sentence (by direct attack on appeal) cannot be subjected to a greater penalty in the event of a second conviction on retrial of the same charge. See United States v. Hough, 157 F. Supp. 771.

In the landmark decision in this field, the Supreme Court has held constitutionally intolerable that which a sense of natural justice also finds abhorrent: conditioning a defendant's right to appellate review upon the gamesmanlike hazard of being more severely punished if he succeeds on appeal.

Green v. United States (1957), 355 U.S. 184,  
187-192.

In the language of the Eighth Circuit, in the course of a holding that the first punishment -- "lenient as it was" -- nevertheless fixes the maximum limit of any subsequent punishment:

"The law may not now ambush with the threat of

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<sup>1/</sup> And generally speaking in virtually all other jurisdictions (if not actually all other jurisdictions). See, for example, People v. Henderson, 60 Cal. 2d 482, 495-7, 35 Cal. Rptr. 77, 386 P. 2d 677, and authorities discussed.



repeated punishment the person who attempts to claim his constitutionally protected rights [citation]. To condone such a procedure would be to allow a prosecutor to unconstitutionally 'boobytrap' a constitutionally guaranteed right [citation; in the language of Mr. Justice Holmes] 'It cannot be imagined that the law would deny to a prisoner the correction of a fatal error unless he should waive other rights . . . ' "

Oksanen v. United States (8th Cir. 1966), 362 F. 2d

74, 81, cert. den. 385 U.S. 840.

Neither, it seems clear, may the law ambush defendant by inflicting additional punishment because he attempted -- successfully -- to claim his constitutionally protected rights in the first appeal; that appears to be at least an equally abhorrent "boobytrap".

In that which is probably one of the two or three leading cases in this area, the Second Circuit has termed as "a well settled general rule" the proposition that the sentence once regularly imposed cannot subsequently be increased, doing so in the context of a multiple-count situation. Where there were two counts and the defendant was sentenced on both, and one of the sentences was subsequently set aside, the other could not be increased even though -- as in the case at bar -- the maximum permissible sentence was greater than that imposed by the court on the one count (and, for that matter, greater even than both original sentences). In other words, the single sentence on the single count, once imposed could not be increased -- without reference to any other



counts, nor with reference to the permissible statutory maximum, nor even with reference to the District Court's intent.

United States v. Sacco (2nd Cir. 1966),

376 F. 2d 368, 369.

As the Ninth Circuit has recently pointed out -- in the course of reversing an order denying correction of sentence -- the fact that the District Court might have imposed greater or consecutive sentences does not mean that the matter "may be treated as though he had done so."

Kennedy v. United States (9th Cir. 1964),

330 F. 2d 26, 28-9 and numerous authorities collected.

#### THE MULTIPLICITY OF COUNTS DOES NOT AFFECT THE RESULT.

Based upon the foregoing, defendant submits, it seems crystal clear that a defendant originally sentenced to a year and a day cannot, following retrial after a successful appeal, be sentenced to either three years or five years imprisonment -- notwithstanding the maximum which might have been imposed at either trial, and notwithstanding the subjective intent of either the first or the second court. That, it seems, approaches being the end of the matter unless the fact that both the first and the second sentences imposed punishment on multiple counts.

In this section, as in the authorities collected at the end of the preceding section, the possibility of such a qualification will be



examined and it will be seen that the multiplicity of counts does not constitute a justification for departing from the general rule. Phrased simply: Each sentence for each crime must be treated as a single entity or a single unit.

If nothing else, that constitutes the law of the case. In its decision on the second appeal, the Ninth Circuit examined this very defendant's thesis that the separate charges were not taken independently but were rather tried " 'as a whole, as a gestalt' ", and rejected this contention, holding that this Court properly treated each count as an independent entity.

Gilbert v. United States (9th Cir. 1966), 359 F. 2d

285, 288, cert. den. 385 U.S. 882.

That holding, of course, is not only binding upon this Court, but also constitutes the law of the case for the purpose of all courts.

Furthermore, there is contained within the four corners of this case the clearest example of the necessity of such a rule against subsequent increase in punishment. On the second appeal, the Ninth Circuit noted that this defendant had been convicted on three counts of violating 18 U.S.C. §1001.

359 F. 2d at 286.

It held that, since those convictions were supported, the validity of the remaining convictions would not be examined.

359 F. 2d at 288-9 [10].

Let us examine that. In the first trial, this defendant was sentenced to a year and a day on each of those three counts of violating §1001: A total of 3 years and 3 days. But in the second





trial, that punishment on any one of those three counts was increased to five years.

In other words, when Mr Gilbert suffered a first conviction of violating §1001, the proper punishment was three years, but, because the federal authorities acted unconstitutionally in searching and seizing his property and the judgment was reversed, his punishment should be increased forty percent! <sup>2/</sup>

One may readily hypothesize that the Ninth Circuit, on the second appeal, would have reached the same judgment if only one of the §1001 counts resulted in a valid conviction, since the punishment for that one would still have been five years. Thus, a defendant could be found to have been validly convicted on only one of 15 charges in a second trial and yet be subjected to a 500 per cent increase in punishment over that imposed on that count in the first, unconstitutional trial. It is not difficult, defendant submits, to ascertain the reason why courts have been unwilling to suffer such a result and have, instead, flatly prohibited increased punishment and flatly demanded examination of each count as a unit.

In the benchmark Benson case (supra), the Fifth Circuit, speaking through Judge Brown, pointed out the basic necessity of examining sentences on a specific basis:

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<sup>2/</sup> And his right to meaningful appellate review of errors committed in the charges of violating 26 U.S.C. §7206 is forfeited to boot.



"A sentence is passed not because the defendant is a social outcast or needs chastisement generally. It is the law's punishment for specific transgressions of its formalized standards. It seems to us that everything points to the importance of an articulate, identifiable sentence being imposed. If that is what the law reasonably requires and prefers, then a sentence varying from that standard is, in the words of F. R. Crim. P. 35, 'illegal'."

Benson v. United States, supra, 332 F. 2d at 291.

Continuing, the court there noted that rehabilitation is one of the most important functions performed by the entire criminal law and the prison system. Rehabilitation, it held, could only be efficiently carried out when there is a specific indication to the offender of "what sentence has been imposed for what conviction," and that "A clear understanding by the prisoner of the sentence imposed for the particular offense involved is most helpful in the rehabilitation process."

332 F. 2d at 292.

In another very recent and compellingly similar case, a defendant was convicted of five counts charging interstate telegraphic fraud and transportation of stolen money. He was sentenced to 10 years on count 3 of the indictment and a year on each of the four other counts, all to be served concurrently. Thereafter (by some means not disclosed in the opinion), the court's attention was called to the fact that five years was the statutory maximum



for count 3. The trial court then vacated all sentences:

"Obviously seeking to correct the illegal sentence, while giving full effect to his originally intended ten-year total sentence, the District Judge then sentenced defendant to ten years on Count 2 [within the statutory maximum on that count] and one year on all the other counts, with all sentences to run concurrently. The effect of his action was to vacate the illegal ten-year sentence on Count 3 and reduce it to one year, and to vacate the legal sentence on Count 2 and increase it to ten years."

On appeal, the appellate court observed the propriety of reducing the sentence on count 2 but held: despite the court's initial intent, the original sentence on the other count (within the statutory bounds) could not be increased.

"If, as appears likely from the record before us, the petitioner has now served a full year, he has completed his legal sentence and must now be discharged."

United States v. Adams (6th Cir. 1966),  
362 F. 2d 210, 210-212.

In other words, the court could reduce the excessive 10-year sentence to one year, but it could not increase the previously-imposed one-year sentence to five years, or ten years, or at all.

The Fourth Circuit has held that a sentence on multiple



counts cannot be corrected to increase the sentence originally imposed on any one count, nor can the same be achieved by converting a formerly concurrent sentence to consecutive.

United States v. Magliano (4th Cir. 1964),

336 F.2d 817, 823 (holding that the defendant, against whom such a change was assessed, might file a motion under Rule 35 and would be entitled to have it granted, correcting the sentences downward and leaving them concurrent).

The Sixth Circuit has dealt with a case of multiple convictions attacked on motion under Rule 35, in which the district judge refused to grant the motion because the total sentence tacked together was within the maximum which could have been imposed in the first place, and therefore the defendant was not prejudiced. Held: Since multiplicity of sentences impair opportunities for pardon or parole, each must be separately examined, even apart from the question of length of sentence.

United States v. Machibroda (6th Cir. 1964),

338 F.2d 947, 949 (reversing order of denial).

The Fifth Circuit subsequently explained its own keystone decision in Benson, (supra), in the following terms:

"[A] general sentence within the aggregate maximum for three counts but which exceeded the maximum allowable on any one count required remand for resentencing under Rule 35."





Milam v. United States (5th Cir. 1965),

341 F 2d 956, 957, note 1.

In the case at bar, whatever "the aggregate maximum" on all of the second trial counts might be, the "maximum allowable on any one count" was a year and a day -- the amount imposed on this defendant in his first trial. Without awaiting appellate intervention, it is submitted, this Court should correct the sentence by reducing it to that allowable maximum.

Respectfully submitted,

EDWARD J. SKELLY

Attorney for Appellant



CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

/s/ Edward J. Skelly  
EDWARD J. SKELLY



NOS. 22489 and 22489A

IN THE UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT

FRIEND AND COMPANY, a corporation,  
and WILBER H. FRIEND,

Defendants-Appellants,

vs.

H. A. FRIEND AND COMPANY, INC.,

Plaintiff-Appellee.

*See Vol.  
3476*

REPLY BRIEF ON BEHALF OF APPELLANTS  
FRIEND AND COMPANY AND  
WILBER H. FRIEND

APPEAL FROM  
THE UNITED STATES DISTRICT COURT  
FOR THE CENTRAL DISTRICT OF CALIFORNIA

FILED

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ANGUS & MON  
D. GORDON ANGUS  
ROBERT M. ANGUS

234 East Colorado Boulevard  
Pasadena, California 91101

MU 1-5494

Attorneys for Defendants-Appellants



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Pasadena, California 91101

MU 1-5494

Attorneys for Defendants-Appellants





## TOPICAL INDEX

	<u>Page</u>
Table of Authorities.	iii
I COMBINED BRIEF AND REPLY BRIEF OF APPELLANTS AND CROSS-APPEL- LEES, WILBER H. FRIEND AND FRIEND AND COMPANY ON CROSS-APPEAL AND IN REPLY TO BRIEF OF H. A. FRIEND AND COMPANY, INC.	1
II THERE IS ERROR IN PLAINTIFF'S ARGU- MENT IN SUPPORT OF AWARD OF ATTOR- NEY'S FEES.	2
III THE ISSUE AS TO THE DISTRICT COURT'S AWARD OF DAMAGES.	8
IV PLAINTIFF'S ARGUMENT THAT IT SHOULD BE AWARDED ALL OF DEFENDANTS' PROFITS.	14
V THE PLAINTIFF'S ARGUMENT CONCERNING 15 U.S.C. 1125(a) AND CALIFORNIA LAW OF UNFAIR COMPETITION.	20
VI PLAINTIFF'S DISCUSSION OF LACHES, ACQUIESCENCE AND ESTOPPEL.	24
A. Howard Friend's Visit to Friend and Company in 1956.	27
B. Defendant's Reliance on Plaintiff's Inactivity.	28
C. The Issue of Ownership of the Trademarks.	28
D. Wilber Friend's Testimony is Not Impeached Nor False.	31
E. The Witness Poole was Impeached.	32
SUMMARY.	34
APPENDIX A.	A-1
APPENDIX B.	B-1
APPENDIX C.	C-1



EXHIBIT M.	C-6
EXHIBIT N.	C-11
EXHIBIT Q.	C-15
EXHIBIT AF.	C-18
EXHIBIT AG.	C-19



# TABLE OF AUTHORITIES

<u>Cases</u>	<u>Page</u>
American Washboard Co. v. Saginaw Mfg. Co. , 103 F. 281 (6 Cir. 1900)	21-22
Atlas Beverage Co. v. Minneapolis Brewing Co. , 113 F. 2d 672 (8 Cir. 1940)	29
Brower v. Bolton, 58 Fed. 888 (C.A. 2, 1893)	29
California Apparel Creators v. Wiedner of California, 162 F. 2d 893 (2 Cir. 1947)	23
Chamberlain v. Columbia Pictures, 186 F. 2d 923	21, 23
Columbia Mill Co. v. Alcorn, 150 U.S. 460, 37 L. Ed. 1144, 14 S. Ct. 151	29
Crupe v. Click, 26 Cal. 2d 680 (1945)	16
Eastman Kodak Co. v. Southern Photo Materials Co. , 273 U.S. 359	8
In re Fineberg, 36 F. 2d 392 (W. D. N. Y. 1929)	25
Fleischmann Distilling Corp. v. Maier Brewing Co. , 314 F. 2d 149 (9 Cir. 1963)	32
Fleischmann Distilling Corp. v. Maier Brewing Co. , 386 U.S. 714, 18 L. Ed. 2d 475, 87 S. Ct. 1404	2
Gillons v. Shell Co. of California, 86 F. 2d 600 (9 Cir. 1936)	25
International Association of Cleaning and Dye House Works v. Landowitz, 20 Cal. 2d 418 (1942)	23
Maier Brewing Co. v. Fleischmann Distilling Corp. , 359 F. 2d 156	2, 4-7, 12
Maier Brewing Co. v. Fleischmann, 390 F. 2d 117, 157 USPQ 76 iii.	16-17



Manufacturer's Finance Corp. v. Pacific Wholesale Radio, Inc., 130 Cal.App. 239, 19 P.2d 1013 (1933)	27
Mosler Safe Co. v. Ely-Norris Safe Co., 273 U.S. 132, 7 L.Ed. 578, revs'g 7 F.2d 603 (2 Cir. 1925)	22
National Van Lines, Inc. v. Dean, 237 F.2d 688	3, 5-6, 14-16
O'Connor & Gordon, Inc. v. By-Line Publications, 138 N.Y.S.2d 104 (1955)	29
Omag Optik und Mechanik A.G. v. Weinstein, 85 F.Supp. 631 (S.D.N.Y. 1949)	29
Red Devil Tools v. Tip Top Brush Co., Inc., 50 N.J. 563, 236 A.2d 861 (1967)	7
Rolley, Inc. v. Young Husband, 204 F.2d 209 (9 Cir. 1953)	29
Show Management v. Hearst Publishing Co., Inc., 196 Cal.App.2d 606 (1961)	23
Stork Restaurant, Inc. v. Sahati, 166 F.2d 348 (9 Cir. 1948)	25
Story Parchment Co. v. Patterson Parchment Paper Co., 282 U.S. 555, 51 S.Ct. 248, 75 L.Ed. 544	8
Universal Pictures Co. v. Harold Lloyd Corporation, 162 F.2d 354 (9 Cir. 1947)	8
Whitman v. Walt Disney Productions, Inc., 263 F.2d 229 (9 Cir. 1958)	26
Wolfe v. National Lead Co., 272 F.2d 867	5

#### Statutes

Lanham Trademark Act of 1946	2-7
§44g	5
§44h	5





15 U.S.C. , §1117	3
§1125(a)	3, 20
§1126(g)	5
§1126(h)	5

California Business and Professions Code:

§17500	24
--------	----

California Civil Code:

§3369	23-24
§3369(3)	23

Texts

68 C. J. S. 629, (Partnership), §175	25
McCormick on Evidence, §243	32



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I

COMBINED BRIEF AND REPLY BRIEF OF  
APPELLANTS AND CROSS-APPELLEES,  
WILBER H. FRIEND AND FRIEND AND  
COMPANY ON CROSS-APPEAL AND IN  
REPLY TO BRIEF OF H. A. FRIEND AND  
COMPANY, INC.

---

The arguments in the brief of H. A. Friend and Company, Inc., herein generally referred to as plaintiff, in support of the award of attorney's fees and damages and for defendants' profits sought by the cross-appeal, are herein considered together as they constitute the total argument for monetary compensation in behalf of plaintiff.



## II

### THERE IS ERROR IN PLAINTIFF'S ARGUMENT IN SUPPORT OF AWARD OF ATTORNEY'S FEES.

---

Factors in the present cases pertinent to the matter of attorney's fees are: The first case, No. 22489 was brought for trademark infringement and unfair competition, and jurisdiction was invoked under the Lanham Act. The second case, No. 22489A was brought for false representations, and jurisdiction was also invoked under the Lanham Act. The district court's Memorandum of Decision made the following finding:

"The record shows beyond a doubt that the hereinabove discussed acts of trademark infringement on the part of the defendants resulted in damages to the plaintiff."

(Ct. 477) (Underscore by counsel).

The "trademark violations" in the court's Memorandum commencing at Ct. 470 covered the trademarks "Friend's", "Banner", and "Barrister Bond". Under basic trademark law the defendants' use of the trade names Friend Paper Company, and Friend and Company, would be infringements of the trademark "Friend's" if there were no effective defenses.

The argument in pages 54-61 of plaintiff's brief in support of the district court's award of \$30,000 attorney's fees misconstrues the decision of this Court in Maier Brewing Co. v. Fleischmann Distilling Corp., 359 F.2d 156, affirmed by the U.S. Supreme Court in Fleischmann Distilling Corp. v. Maier Brewing Co., 386 U.S. 714, 18 L.Ed.2d 475, 87 S.Ct. 1404. At page 54 plaintiff's



brief in referring to National Van Lines, Inc. v. Dean, 237 F.2d 688 implies that the district court in the present cases awarded the \$30,000 attorney's fees "for deliberate acts of unfair competition at common law". More precisely, the award was "for attorney's fees reasonably incurred in prosecuting these actions - \$30,000" (Ct. 481). Since the present actions were prosecuted under the Lanham Act, it follows that the \$30,000 attorney's fees was for prosecuting Lanham Act causes of action.

Plaintiff's brief at p. 54 states: "National Van Lines expressly ruled that it was unnecessary to decide issues of trademark infringement under the Lanham Act." But what actually was decided in that case, in which three theories were pleaded, namely, unfair competition, trademark infringement, and unjust enrichment, was that it was unnecessary to do more than rest the decision on the unfair competition theory alone.

In the present case the entire judgment of the district court was under the Lanham Act, namely the injunction against infringement of the trademarks "Friend's", "Barrister Bond" and "Banner", the \$5,000 damage judgment for the trademark infringement trebled under 15 U.S.C. 1117, and the injunction and \$20,000 damage judgment for misrepresentations under 15 U.S.C. 1125(a). The district court's Memorandum stated (Ct. 474):

"The plaintiff has contended in its pleadings and at the trial that such false description by the defendants of their goods has made them liable to the plaintiff pursuant to 15 USC 1125(a).

"This Court agrees with the plaintiff . . . ."





The district court made the finding (Ct. 477) "as hereinabove noted, the misrepresentations that the defendants have made in violation of 15 USC 1125(a) have resulted and will result in substantial injury to the plaintiff, . . . ." and awarded the \$20,000 damages on this account. This code section is part of the Lanham Act.

Since every issue decided in the district court was under the Lanham Act, it cannot be considered that the award of \$30,000 attorney's fees was not related to the Lanham Act.

Plaintiff's brief argues in support of all the awards and benefits received from the district court judgment and in support of its cross appeal to obtain defendants' profits and to enjoin all use of Friend, all under the Lanham Act; but for the purpose of attempting to retain also the \$30,000 attorney's fees awarded to it contrary to the Lanham Act, it argues in effect that this is a state law matter of unfair competition having nothing to do with the Lanham Act.

Plaintiff's reference (brief pp. 54 and 55) to this Court's decision in Maier Brewing Co. v. Fleischmann Distilling Corp., 359 F.2d 156, misstates the situation in that case in characterizing it as "a purely statutory trademark infringement action". It actually was for trademark infringement and unfair competition. Plaintiff's brief further misstates the situation in that Maier Brewing case in the parenthetical statement on page 55 reading, "the unfair competition issues having been excised as a result of an earlier appeal in the same case, 314 F.2d 149, 136 USPQ 508". A reading of these two Maier Brewing cases does not indicate an excising of any unfair



competition issue.

It appears clear that this Court considered that the unfair competition count in those Maier Brewing cases was based on the same acts as the trademark infringement count and that everything in the case was under the Lanham Act whether denominated trademark infringement or unfair competition. The coupling of a count for unfair competition in addition to a count for trademark infringement does not remove the case from the auspices of the Lanham Act, and this is especially so in view of the specific provisions of §§ 44g and 44h of the Lanham Act (15 U.S.C. 1126(g) and 1126(h)), copied in Appendix "A" hereof, covering trade names and unfair competition.

If there could be any doubt about this, it must be removed by the decision of this Court in Maier Brewing Co. v. Fleischmann Distilling Corp., 359 F.2d 156, wherein this Court discussed its earlier decisions in National Van Lines v. Dean, 237 F.2d 688, and Wolfe v. National Lead Co., 272 F.2d 867, in both of which it had permitted the award of attorney's fees. In the Wolfe case the complaint was for trademark infringement and unfair competition, just as in the present case, and in respect to the allowance of attorney's fees, this Court said (359 F.2d 156, 165):

"We overrule Wolfe, to that extent, and limit National Van Lines to its actual holding, as to the correctness of which we express no opinion."

The difference between the Wolfe and the National Van Lines cases was that in Wolfe, both the trademark infringement and the unfair



competition causes were decided, whereas in National Van Lines this Court had based its decision only on the unfair competition claim.

Even though this Court declined to go so far as to overrule National Van Lines, it expressed doubt as to its validity, not only because of the above quotation but also in its statement reading (359 F.2d 156, 157):

"Insofar as these cases can be said to relate to an award of attorney's fees in an action for trademark infringement under the Lanham Act, (15 U.S.C. § § 1051 ff) they, or at least Wolfe, should be overruled."

Even if the unfair competition cause in the present cases comes within the purview of California state law as well as the Lanham Act, it is submitted that this does not help the plaintiff to obtain an award of attorney's fees, for two reasons: (1) it appears clear from the decision of this Court in Maier Brewing Co. v. Fleischmann, 359 F.2d 156 and of the Supreme Court affirming it, that if the cause is within the Lanham Act it does not matter whether it also is within the purview of state law; and (2) California state law does not award any attorney's fees in cases of unfair competition or trademark infringement.

The Lanham Act has pre-empted and governs all matters within it regardless of state law. It is true that all statutory trademarks and their registrations have their genesis in common law, which is state law, and that in order to be entitled to a Lanham Act trademark registration the registrant must have acquired his





trademark in the well-known common law manner, that is, by being the first to adopt it and use it on his products.

It is well established under California law that attorney's fees are never awarded unless a statute specifically provides for it, and California has not enacted any statute allowing attorney's fees in such cases. This Court has recognized that in its statement in Maier Brewing Co. v. Fleischmann Distilling Corp., 359 F.2d 156, wherein this Court stated (at page 158):

"We start with the long established principle that a successful party can not, in an ordinary action at law or in equity, recover his attorney's fees incurred in the action, unless such recovery is provided for by statute or contract. It makes no difference whether such a recovery be denominated costs or damages or something else. This has long been the rule in the federal courts, and in the courts in California. . . ."

Thus, the present cases were tried, and judgment awarded, entirely under the Lanham Act, notwithstanding that a cause of action was stated for unfair competition. It would be incongruous if the judgments of this Court and the Supreme Court could be evaded by the simple expedient of joining an unfair competition count with a trademark infringement count, as is done in practically all trademark cases.

Plaintiff's brief (p. 57) emphasizes Red Devil Tools v. Tip Top Brush Co., Inc., 50 N.J. 563, 236 A.2d 861 (1967). That case is not pertinent as it was not a Lanham Act case, and only involved





New Jersey law, the court stating that under New Jersey law, attorney's fees are properly awardable.

### III

#### THE ISSUE AS TO THE DISTRICT COURT'S AWARD OF DAMAGES.

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In its brief pp. 48 and 49, plaintiff argues justification for the \$5,000 trebled award of damages for the trademark infringement and the \$20,000 damage award for the misrepresentations, citing Universal Pictures Co. v. Harold Lloyd Corporation, 162 F.2d 354 (9 Cir. 1947), quoting from Story Parchment Co. v. Patterson Parchment Paper Co., 282 U.S. 555, 562, 563, 51 S. Ct. 248, 250, 75 L.Ed. 544, and Eastman Kodak Co. v. Southern Photo Materials Co., 273 U.S. 359, at 378.

It is submitted that these cases actually support the defendants' contention (pp. 75 to 79 of defendant's opening brief) that there is no basis in the record for any of the damage award. While the Supreme Court in the Story Parchment Co. case did not preclude recovery of damages which are uncertain in respect to their amount, it did make the statement: "In such case, while the damages may not be determined by mere speculation or guess, it would be enough if the evidence shows the extent of the damages as a matter of just and reasonable inference, although the result be only approximate." It is the defendants' position that there is no evidence in the case showing the extent of the damages even to an approximation.

In the Eastman Kodak Co. case, the Supreme Court made a



similar statement, namely: "It is sufficient if a reasonable basis of computation is afforded, although the result be only approximate." It is defendants' contention that there is no reasonable basis in the case for any computation of the district court, and neither the district court Memorandum nor plaintiff's argument in its brief indicates what such basis of computation could be.

The greatest possible amount of diversion of the plaintiff's customers which could have gone to defendants would be the 184 customers which plaintiff's ledger sheets (Exh. AJ) show are all the customers it ever had in all of the far western states including even all of Texas where defendant has never operated except in the West Texas area encompassing Amarillo, El Paso and Lubbock. These are the ledger sheets referred to in p. 49 of plaintiff's brief. The "correspondence relating to orders of customers" referred to in the same sentence in brief p. 49 is not identified nor recognized by defendants excepting the deposition exhibits. In answer to an interrogatory, plaintiff stated it had only 183 customers in the far western states including all of Texas (Ct. 64). Plaintiff has never contended that defendants obtained all of the 183 or 184 customers, nor even a major part of them. Plaintiff took over 30 depositions (plaintiff's brief pp. 21-22) which apparently were about all of its former customers thought to have given business to defendants. Only about 16 of these customers indicated they were confused between plaintiff and defendant, namely Hughes & Jeffers (Hughes dep. Exh. 235, Pinkston dep. Exh. 236); Arthur M. Newton (Newton dep. Exh. 237); Davis & Eppstein (Warmington dep. Exh.



240, Davis dep. Exh. 248); J. H. Jahnke (Jahnke dep. Exh. 244); James Gregg (Gregg dep. Exh. 245); Harold Whitney (Whitney dep. Exh. 246); Albert Gurtler (Gurtler dep. Exh. 247); John Augustine (Augustine dep. Exh. 249); Modrall, Seymour Sperling, Roehl & Harris (Leder Dep. Exh. 250); Dale Walker (Rt. 247, Walker dep. Exh. 252); Lewis Sutin (Sutin dep. Exh. 253); Albert Ussery (Ussery dep. Exh. 254); Evelyn Howard (Ct. 391, Exh. 263); J. N. Cunningham (Ct. 387, Exh. 264); William Fowler (Ct. 424, Exh. 267); James Wilson (Ct. 429, Exh. 268). Only two of these customers indicated that they shifted to defendants because of confusion, namely J. H. Jahnke (Exh. 244) and Davis and Eppstein (Exh. 240). Regardless of the existence of any confusion between the two companies, several customers testified that they would have switched anyway due to the personal service provided by defendant Wilber H. Friend in assisting the customer as to the customer's needs. These customers include Albert Gurtler (Gurtler dep. Exh. 247, p. 5, lines 12, 13) and a Norman Herring whose deposition was not introduced into evidence. Other deponents did not indicate they were confused, namely J. W. Kindall (Kindall dep. Exh. 238); Benita Olson (Olson dep. Exh. 239); Ernest Meyer (Meyer dep. Exh. 242); Margret Wiseman (Wiseman dep. Exh. 243); Richard Krannawitter (Krannawitter dep. Exh. 251); Edward Halsey (Ct. 375-378; Exh. 261); F. E. Braucht (Ct. 379-383, Exh. 262); Judge Charles Roick (Ct. 411-413, Exh. 265) and James Wilson (Ct. 428-432, 441-445, Exh. 268).

Regardless of how many customers indicated confusion, the





only evidence of confusion was between Friend and Company and H. A. Friend and Company, and there is no evidence that anyone was confused by the trademarks "Friend's", "Banner" and "Barrister Bond". In 1963, defendants offered (Exh. AK, letter of Nov. 7, 1963) to settle the entire controversy by changing the name of the retail business either to "Friend Paper Company" or to "W. H. Friend & Company"; by using for a specified period of time "No connection with H. A. Friend and Company of Zion, Illinois" in sales literature; and by deleting the "Western Division" from the trade name. Plaintiff's other demands however were not possible to meet, hence there was no settlement. The parts of defendants' catalogs, objected to herein were not included in the offer but only because they had not yet been revealed by the discovery proceedings. It is believed that plaintiff is not even entitled to as much as defendants offered.

Neither the district court nor plaintiff's brief gives any indication as to how diverted sales, which the district court characterized as small (Ct. 477), caused as much as \$5,000 in lost profits to plaintiff and there is no evidence as to how much any diverted customers bought from defendants or when they bought it.

The only kind of evidence in the case which the district court could have used as a basis for finding or estimating actual damage would be the approximately 30 depositions on confusion taken by plaintiff, and from these determine which deponents had given business to defendant because of confusion, and then estimate the dollar amount of all such confused sales from some given date, presumably the filing date of the suit when defendant was put on





notice of plaintiff's trademarks, and then estimate the amount of profit lost to the plaintiff. There is no evidence in the case of any of these factors insofar as defendants are aware, excepting the two customers diverted because of confusion. There is no evidence as to whether these deponents represent the only ones who gave business to defendants because of confusion. But since plaintiff had no need for taking all these depositions merely to show likelihood of confusion, it may be inferred that plaintiff uncovered substantially all customers which could have been considered diverted by confusion.

Considering that plaintiff's far west state sales for the years from 1942 well into the 1950's was about \$1,000 per year, (Chart Appendix "I", opening brief, and plaintiff's tabulation of sales, Appendix "C" of this brief), it follows that total profits for all customers of plaintiff in the far western states averaged about \$50 per year, assuming a 5% profit on sales. Since defendants could have diverted only a small proportion of the total of the 184 customers of plaintiff in the far western states, it is very likely that the diversionary effect of defendants' activities was less than about \$10 or \$15 per year insofar as lost profits are concerned.

The \$20,000 damages for the misrepresentations would likewise have to be based on diversion of business from the plaintiff in order to have a proper basis, and therefore would involve a duplication of the \$5,000 damages awarded for the trademark infringement. Danger of duplication is recognized and condemned in Maier Brewing Co. v. Fleischmann, 359 F.2d 156, 159, by this Court in the following words, which though specifically stated in respect to attorney's



fees, are applicable to all duplications:

"If attorney's fees can be awarded in addition to the award permitted by section 1117, there is grave danger of duplication of damages, as a practical matter. (Cf. Day v. Woodworth, 1851, 54 U.S. [13 How.] 363, 372)."

Whatever damage plaintiff has suffered from misrepresentation, if any, could only be due to confusion arising from trademark infringement and must be included in the damage award for trademark infringement.

In footnote 12 of its brief, p. 31, plaintiff asserts that the records of Gilbert Paper Company, Exh. 19 and 20 through 29m of the Schmerein deposition Exh. BK, show that for the period between 1955 and 1966 Wilber Friend purchased over 600,000 pounds of paper watermarked "Friend's Title Linen", 98% of which was 25% cotton fiber grade, which Wilber Friend allegedly sold as 50% cotton fiber paper and saved over \$60,000. This statement is not true for at least five reasons: (1) nowhere in the record of this case is there any evidence that Wilber Friend purchased over 600,000 pounds of paper watermarked "Friend's Title Linen"; (2) the exhibits of the Schmerein deposition referred to by plaintiff in calculating the 600,000 pound figure include invoices, purchase orders, and sales records of sales, so there is a probability of counting a particular shipment two or three times into the computation; (3) the 600,000 lb. figure includes "Friend's Linen" paper sold to plaintiff H. A. Friend and Company during the same period and not sold or used by defendant; (4) the record does not show that all paper watermarked



"Friend's Title Linen" was advertised as being 50% cotton fiber paper, but instead shows that "Friend's Title Linen" typing paper was advertised without reference to cotton fiber content and that only engraved letterhead paper was advertised as 50% cotton fiber content; and (5) rather than deriving a profit by using 25% paper for envelopes instead of 50% paper, the record shows that defendant passed the savings on to the customer so that defendant obtained actually no monetary benefit whatsoever.

#### IV

#### PLAINTIFF'S ARGUMENT THAT IT SHOULD BE AWARDED ALL OF DEFENDANTS' PROFITS.

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The law in this circuit in cases of deliberate infringement where a plaintiff has not lost substantial business or profits, is as expressed in this Court's decision in National Van Lines v. Dean, wherein this Court said (237 F.2d 688, 694):

"A careful examination of the record fails to reveal any specific evidence to the effect that appellant has lost substantial business and profits as a result of appellee's unfair competition . . . . While some loss of business undoubtedly has occurred, it would not under the circumstances, be fairly measured by appellee's profits, nor be revealed by an accounting."

Thus, at that time at least, the monetary amount to be awarded appears to be the plaintiff's damages which could be measured by





defendant's profits under appropriate circumstances, which however did not exist in the National Van Lines case, and this Court made it clear that if defendant's profits were ever used as a measure of damages, they would be limited to those related to defendant's damage, that is, diversion of sales.

It is submitted that the present case is similar to the National Van Lines case in that while plaintiff has lost some business to defendants, the loss has not been great. This is confirmed by the findings of the district court which held that the sales lost by plaintiff were small in amount and not readily susceptible of ascertainment by an accounting. The question of an accounting being discretionary, the court's decision about it should not be set aside in the absence of abuse of discretion.

The chart which is Appendix I of defendant-appellants' opening brief, shows that defendants' entry into the retail business in the western states in 1950 had no ascertainable effect on the plaintiff's business in the western states. Since the amount of plaintiff's business in the western states has been so small from the very start of it as not to be easily readable on the chart, the tabulation furnished by the plaintiff (Ct. 62 and 63) is provided in Appendix "C" of the present brief. Moreover, the plaintiff's western state sales figure include all of Texas, most of which the defendant does not sell. The state-by-state tabulation of plaintiff's customer accounts in the western states furnished by plaintiff (Ct. 64) and the tabulation of total sales furnished by plaintiff (Ct. 61, 62 and 325) are also included in Appendix "A" hereof. Inspection of the chart





and these tabulations furnished by plaintiff shows the absence of perceptible damage. Thus, in Crupe v. Click, 26 Cal.2d 680, 692-693 (1945), it is stated, "where the operation of an established business is prevented or interrupted, as by a tort or breach of contract or warranty, damages for the loss of prospective profits that otherwise might have been made from its operation are generally recoverable for the reason that their occurrence and extent may be ascertained with reasonable certainty from the past volume of business and other provable data relevant to the probable future sales. [Citations]."

Defendants submit that even if all the defenses set forth in defendants' opening brief are rejected, under the circumstances of the present case the award should be limited to an injunction for the same reasons as in the National Van Lines case wherein this Court stated (237 F.2d 688, 694):

"While some loss of business undoubtedly has occurred, it would not, under the circumstances, be fairly measured by appellee's profits, nor be revealed by an accounting. In our view, the injunction to be entered will satisfy the substantial equities of the case. See Champion Spark Plug Co. v. Sanders, 331 U.S. 125, 91 L.Ed. 1386, 67 S. Ct. 1136, 73 USPQ 133."

This Court's decision in the recent case of Maier Brewing Co. v. Fleischmann, 390 F.2d 117, 157 USPQ 76, does not require any different basis of award in a case such as this than that in National Van Lines, although it may have expanded the possibilities



in cases where there is no competition between the parties.

In the recent Maier Brewing case, 390 F.2d 117, this Court stated (at page 120):

"The equitable limitation upon the granting of monetary awards under the Lanham Act, 15 USC §§ 1117, would seem to make it clear that such a remedy [accounting] should not be granted as a matter of right."

In its brief pp. 62-64, plaintiff argues that it should not only have all the damages which have been awarded by the district court, but also all of defendants' profits which plaintiff asserts "could reach several hundred thousand dollars", and it appears to base these contentions on the recent decision of this Court in Maier Brewing Co. v. Fleischmann, 390 F.2d 117. Neither this latest Maier Brewing case, nor any other case known to defendants holds that a plaintiff should be awarded both the plaintiff's damages and the defendants' profits, and there is no known case holding what the plaintiff is demanding herein, namely to have compensatory damages, trebled under the Lanham Act for trademark violations, and also damages for misrepresentations of the defendants' products arising from the same sales and business activity on which the compensatory damages were based, and also attorney's fees, and also all the defendants' profits. This is visionary pie-in-the-sky, utterly inconsistent with the insignificant amount of plaintiff's business and number of customers in the far west, and sales diverted to defendant.

The court's opinion discussed possibilities in cases where



an accounting is appropriate, and it indicated two alternate possibilities where there could, under appropriate equitable circumstances, be an accounting of the defendant's profits, namely, (1) where there is direct competition between the parties, and (2) where there is no direct competition between the parties. In respect to the first alternative, this Court said (390 F.2d 117, 123):

"In the case where there is direct competition between the parties, this can be accomplished by an accounting of profits based on the rationale of a returning of diverted profits."

The second alternative is stated by this Court in the following words (at page 123):

"In those cases where there is infringement but no direct competition, this can be accomplished by the use of an accounting of profits based on unjust enrichment rationale."

It is apparent that if an accounting of defendants' profits were equitable or appropriate at all in the present case, such accounting would only occur under the first alternative, namely, direct competition, and not under the second alternative where there is no direct competition. The finding of the district court is that there has been competition between the parties, and the plaintiff has maintained at the trial and argued in its brief that there is competition between the parties in the western states. Accordingly, such an accounting only would be "based on the rationale of a returning of diverted profits".

In reference to the permissible limits of such an accounting





of profits, this Court stated (390 F.2d 117, 124):

"The plaintiff of course is not entitled to profits demonstrably not attributable to the unlawful use of his marks."

and also (at page 124):

"If it can be shown that the infringement had no relation to profits made by the defendant, that some purchasers bought goods bearing the infringing mark because of the defendants' recommendation or his reputation or for any reason other than a response to the diffused appeal of the plaintiff's symbol, the burden of showing this is upon the poacher."

There is ample evidence in the present case that defendants' sales were due mainly to the personal sales efforts of the defendant himself in traveling through office buildings in large cities in the far-west states and making personal calls (Rt. 49, 59, 74). Plaintiff's business likewise resulted principally from salesman (Rt. 343-344). The plaintiff never had any salesman in the far western states (Richard Friend dep. Exh. BI, p. 6, lines 2-4). Plaintiff found as early as 1949 that mere mailings to the far west states produced no noticeable business (chart of sales, Appendix I). Practically all of plaintiff's business is in the midwest states where it has salesmen who make calls (Richard Friend dep. Exh. BI, p. 5, line 14 - p. 6, line 9) and practically none of it has been in the far west states where it had no salesmen.

It is obvious that there was no mark or name of plaintiff





which may be called a "plaintiff's symbol" to which there could be any appreciable "diffused appeal" in the far west states where there were practically no law offices having any knowledge of the plaintiff. Hence no consideration should be given to awarding profits on the basis of non-competition or on account of any "diffused appeal".

Plaintiff's demands are compounded by its additional demand (p. 63 of its brief) for "the defendants' savings on paper costs", these "savings" presumably being the amounts by which the costs of 25% cotton paper or 50% cotton paper is less than a higher cotton percentage paper. However, plaintiff's brief also states (footnote 12, p. 31) that defendants' prices were lower than plaintiff's prices, and furthermore defendant himself has testified that his prices were based on costs (Rt. 185). Hence, defendant has made no savings on paper costs which are not included in what plaintiff is demanding as defendants' profits.

A pertinent question to consider is: Can all stationers also have defendant's profits for misrepresentations?

## V

### THE PLAINTIFF'S ARGUMENT CONCERNING 15 U.S.C. 1125(a) AND CALIFORNIA LAW OF UNFAIR COMPETITION.

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In pp. 45-47 of plaintiff's brief plaintiff argues that 15 U.S.C. 1125(a) applies to misrepresentations even though their nature is such that they have no effect in passing off defendants' goods as those of the plaintiff, and plaintiff's brief downgrades the force of



this Court's decision in Chamberlain v. Columbia Pictures, 186 F.2d 923 (discussed in defendants' opening brief pp. 72-74), which applied this passing off limitation to 15 U.S.C. 1125(a). It is submitted however that plaintiff's arguments do not detract from the force of the Chamberlain decision as set forth in pp. 72-75 of defendants' opening brief, beyond pointing out that some other circuits do not agree with it. The background of the law leading up to the Chamberlain decision supports it.

Plaintiff's brief lays great stress on what it calls the cheating by defendant of its customers through the alleged misrepresentations of cotton fiber content. It is submitted that there is no reason why plaintiff should collect damages on a theory that defendants' customers have been cheated. The only theory on which plaintiff should collect damages, if at all, is on account of trademark infringement found by the district court. But the fact that the district court has found trademark infringement, an injury to plaintiff, should not give plaintiff the right to duplicate damages on a theory that defendant has cheated its customers in the same operations in which there was the trademark infringement.

The courts have consistently held that cheating of one's customer does not give a competitor a cause of action even though the customers may have a cause of action.

A leading case is American Washboard Co. v. Saginaw Mfg. Co., 103 Fed. 281 (6 Cir. 1900) wherein the sole manufacturer of aluminum washboards sought to enjoin the false representation that a competing sinkboard was made of aluminum. The court made the



following pertinent statement (103 Fed. 281, 285):

"It is true that in these cases it is an important factor that the public are deceived, but it is only where this deception induces the public to buy the goods as those of complainant that a private right of action arises."

In the present case there is no evidence whatever that the defendants' catalog statements concerning its cotton fiber contents played any part in inducing the public to believe it was purchasing plaintiff's goods rather than defendants' goods.

In the present case the plaintiff is in a far weaker position than in the American Washboard case insofar as diverting sales from the plaintiff through misrepresentation of goods is concerned. In the American Washboard case, the plaintiff was the sole source of aluminum washboards and from that it may be readily inferred that sales made by the defendant would have gone to the plaintiff but for the misrepresentations. In the present case, on the other hand, the plaintiff has made only a small fraction of a percent of all the sales of stationery to law firms in the far west states.

In Mosler Safe Co. v. Ely-Norris Safe Co., 273 U.S. 132, 71 L.Ed. 578, revs'g 7 F.2d 603 (2 Cir. 1925) cited in p. 47 of plaintiff's brief, the Supreme Court made the following pertinent statement (273 U.S. 132, 134):

"If, on the other hand, the representation was false as it is alleged sometimes to have been, there is nothing to show that customers had they known the facts would have gone to the plaintiff rather than to other competitors





in the market, or to lay a foundation for the claim for a loss of sales. . . ."

Also California Apparel Creators v. Wiedner of California, 162 F. 2d 893 (2 Cir. 1947) quoted in part in Appendix "B".

Plaintiff's brief at page 44 seeks benefits under California Civil Code § 3369 although the district court did not award any relief under this Civil Code section or any other California law, and plaintiff did not take any appeal nor assign any error in respect to it. It is submitted for these reasons alone plaintiff is not now entitled to extend its awards thereunder. It is appropriate to point out however that Civil Code § 3369 has been restricted by the California courts to cover only those misrepresentations which result in passing off, and thus conforms with this Court's decision in the Chamberlain case. International Association of Cleaning and Dye House Works v. Landowitz, 20 Cal. 2d 418 (1942), quoted in part in Appendix "B". Show Management v. Hearst Publishing Co., Inc., 196 Cal. App. 2d 606 (1961), wherein false advertising was involved is quoted in part in Appendix "B".

It is true that in 1963 Civil Code § 3369 was amended as appears in Appendix "A" such that § 3369(3) as written in page 22(a) of plaintiff's brief is no longer strictly correct. The amended § (3) reads as follows:

"3. [Definitions.] As used in this section, unfair competition shall mean and include unlawful, unfair or fraudulent business practice and unfair, untrue or misleading advertising and any act denounced by Business and





Professions Code Sections 17500 to 17535, inclusive."

Business and Professions Code § 17500, quoted in Appendix "A" does not alter the situation as applicable to the present case for the reasons that the additions of § 17500 do not add any materiality to the "unfair or fraudulent business practice and unfair, untrue or misleading advertising" which has been in § 3369 since 1933, insofar as the present case is concerned.

Apart from the above discussion of Civil Code § 3369, it is noted that paragraph 5 of § 3369 provides only for actions for injunction and not for any profits or damage, which is the subject of the plaintiff's argument herein. There is no known statute or rule of law of California which would award any profits or damages for a violation of § 3369.

## VI

### PLAINTIFF'S DISCUSSION OF LACHES, ACQUIESCENCE AND ESTOPPEL.

---

On p. 50 of plaintiff's brief, heading XI is worded to the effect that the district court made a finding that "laches, acquiescence and estoppel do not protect defendant". That wording is inaccurate as the district court's finding was limited to the "Absence of Laches" (Ct. 476). The district court made no finding in respect to estoppel or acquiescence excepting the finding that plaintiff had acquiesced in defendants' use of the name Friend Paper Company.

At p. 51 plaintiff's brief supports the findings of the district court to the effect that there is no laches in the present case because



"the present management of plaintiff did not know of defendant's infringement activities until the latter part of 1962". Even assuming that to be true, which defendants do not admit, particularly in view of the visit of Howard Friend to the office of Friend and Company in 1956 (Ct. 57) it is immaterial whether the "present management", that is, of the plaintiff H. A. Friend and Company, Inc., previously had actual knowledge, because the present plaintiff stands in no better position than its predecessor whose assets and liabilities it received. This was the partnership, which included Harley A. Friend, who the district court found did have knowledge of the defendant's name Friend and Company for the retail stationery business, at least as early as April, 1957.

Gillons v. Shell Co. of California, 86 F.2d 600 (9 Cir. 1936) cited in plaintiff's brief, holds that the finding of the trial court in respect to laches will not be set aside unless it is clearly wrong. Defendants submit that it was clearly wrong to hold that this knowledge of Harley A. Friend was not imputed to the then-existing partnership of H. A. Friend and Company, for the reasons stated in p. 69 of defendants' opening brief. 68 C.J.S. 629 (Partnership, § 175). Stork Restaurant Inc. v. Sahati, 166 F.2d 348, 362 (9 Cir. 1948), In re Fineberg, 36 F.2d 392 (WD NY 1929).

Even if Harley A. Friend had been mentally incompetent at the time, that would not have altered the situation for the reason that the acts of the three partners Richard, Howard and William Friend in remaining in partnership with Harley Friend automatically subjects them to liabilities and risks from the acts of Harley Friend,



the same as the acts of any other partner. But there is not even any suggestion in the record that Harley was at all incompetent, but only that he was a cardiac and a diabetic, and had been for many years (plaintiff's brief p. 36). The court can easily take judicial notice of the fact that there are many cardiacs and diabetics in high positions performing important services for their companies, and binding their companies to their acts. A reading of Harley Friend's response (Exh. AG) to the Lycette letter (Exh. AF) shows he was completely rational. Plaintiff's brief refers on p. 52 to Harley being "incapacitated" and only having "partial knowledge". There is no evidence of any incapacity and the Lycette letter showed that he had full knowledge of defendant's trade name Friend and Company and that it was in the retail stationery business selling to law firms.

On p. 53 of its brief plaintiff in quoting from the case of Whitman v. Walt Disney Productions, Inc., 263 F.2d 229, 231 (9 Cir. 1958) (which holds that laches is presumed after 6 years of knowledge), refers to "poor health" as a possible excuse for delay in bringing suit. But in the present case there is no evidence whatever of any of the partners Richard, Howard or William Friend being in poor health. Even if Harley Friend was in poor health, that would not prevent the partnership from bringing suit, and certainly it would not prevent their bringing suit after Harley's death in 1959.

Pertinent correspondence in 1949 and 1956 involving Harley A. Friend and bearing on laches is copied in Appendix "C" hereof.





A.      Howard Friend's Visit to Friend and  
         Company in 1956.

---

In reference to Howard Friend's visit in 1956 to the office of Friend and Company at 55 West Green Street, Pasadena (pp. 23-25 of defendants' brief) when he walked through the only entrance to the establishment from the street, the door of which bore the name "Friend and Company" with the words "wholesale paper" beneath the name, plaintiff's brief argues near the bottom of p. 36 thereof that "defendant never took the testimony of Howard Friend in order to bolster its affirmative defense although defendant took testimony of other witnesses in plaintiff's offices in Zion, Illinois when Howard was present". This last-quoted statement contains an inaccuracy in that defendant never took any testimony of anyone in Zion, Illinois, but merely attended depositions of three witnesses called by plaintiff in plaintiff's offices in Zion, Illinois.

Howard Friend while on that automobile trip in 1956 to California from Illinois, on his own initiative ascertained the address of Friend and Company's business establishment, which must have been either from the telephone book or from business cards or communications which defendant has testified (Rt. 392, 394 and 402) he had left with and maintained occasionally with his Zion relatives. Since it is incredible that Howard did not know the name of the place he was looking for, and entered twice, the burden of carrying forward any further possible evidence on the subject rests with the plaintiff. (Manufacturer's Finance Corp. v. Pacific Wholesale Radio, Inc., 130 Cal. App. 239, 19 P.2d 1013 (1933)).





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Plaintiff's admissions concerning Howard Friend's visit are included in Appendix "C", as are pertinent excerpts from the final argument relating to laches, during which the district Judge held that the plaintiff-brothers were on notice about Friend and Company (Rt. 596-597).

Defendants maintain, of course, that the period of laches running against plaintiff commenced in 1949 for the reasons given in defendants' opening brief pp. 16-21 and 67-71.

B. Defendant's Reliance on Plaintiff's Inactivity.

---

Plaintiff's brief on p. 54 argues absence of reliance by defendant on anything the plaintiff did or didn't do. However, defendant's testimony (Rt. 438-440) stated his reliance on the lack of objection by his father in 1948 or 1949 after being told of the proposed Friend and Company with that name, and of building up his Pasadena establishment from zero to a substantial amount of assets in such reliance. It is submitted that this matter of reliance goes to the issue of estoppel rather than to laches, as laches can occur simply through the passage of the 15 years since 1949 without bringing suit.

C. The Issue of Ownership of the Trademarks.

---

Plaintiff's brief, for example at pp. 11-23, places great emphasis on defendant's trade name Friend and Company and the



associating with it of the 1908 business of Friend Bros. and of Friend Paper Company whose post office address was Zion, Illinois. While thus emphasizing trade name violations there is little discussion of the "Friend's", "Barrister" and "Banner" trademark rights. Plaintiff's brief (p. 43) does not squarely meet the question whether plaintiff is the owner of exclusive rights in the trademarks, and it argues rather that the important thing is to win the lawsuit. It is submitted that basic trademark law requires a finding of ownership of the trademarks before a defendant can be enjoined, for reasons stated at pp. 49-66 of defendant's opening brief. "The exclusive right to the use of the mark or device claimed as a trademark is founded on priority of appropriation: that is to say, the claimant of the trademark must have been the first to use or employ the same on like articles of production." Columbia Mill Co. v. Alcorn, 150 U.S. 460, 463, 37 L.Ed. 1144, 14 S. Ct. 151.

In O'Connor & Gordon, Inc. v. By-Line Publications, 138 N.Y.S.2d 104, 107 (1955), the court stated:

"The mere fact that there is at least one magazine using the name 'Quick' in addition to the plaintiffs is sufficient to defeat the plaintiffs in this litigation."

Also, Rolley, Inc. v. Young Husband, 204 F.2d 209, 212 (9 Cir. 1953). Mere use of a mark by a merchant who obtains the product from a manufacturer does not confer ownership on the merchant. Brower v. Bolton, 58 Fed. 888 (CA 2, 1893); Atlas Beverage Co. v. Minneapolis Brewing Co., 113 F.2d 672 (8 Cir. 1940); Omag Optik und Mechanik A.G. v. Weinstein, 85 F. Supp. 631 (S.D. N.Y. (1949)).





Error is implicit in the statement in the district court's Memorandum of Decision which reads:

"Insofar as the parties to this action are concerned, the entire rights in and to such trademarks remain in the plaintiff." (Ct. 471).

It is submitted that a trademark cannot be "owned" against some people while not being "owned" against another.

Plaintiff's brief slights this question of ownership to such an extent that it has not seen fit even to refute the parts of defendants' opening brief in pages 48-65 thereof, covered by the following topical headings:

- III. H. A. FRIEND AND COMPANY DOES NOT OWN ANY OF THE MARKS INVOLVED IN THIS SUIT.
- IV. PLAINTIFF-APPELLEE DOES NOT OWN THE FRIEND'S REGISTRATION NO. 655,848.
- V. H. A. FRIEND AND COMPANY DOES NOT OWN BANNER AS A TRADEMARK.
- VI. BARRISTER BOND IS NOT A VALID TRADEMARK NOR IS IT OWNED BY OR HELD IN TRUST FOR H. A. FRIEND AND COMPANY.
- VII. H. A. FRIEND AND COMPANY DID NOT OBTAIN EVEN A PURPORTED ASSIGNMENT OF BARRISTER BOND UNTIL AFTER THE FILING OF THIS SUIT.





D.      Wilber Friend's Testimony is Not  
         Impeached Nor False.

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Plaintiff's brief repeatedly characterizes Wilber Friend's testimony as "preposterous stories" or "unbelievable", and his conduct as "heinous". Actually, most of the factual elements in the plaintiff's case concerning the businesses of H. A. Friend and Company and of the defendants have been supplied by Wilber Friend and relied on by plaintiff. There are two items of Wilber Friend's testimony, however, which plaintiff does not wish to have believed, namely, (1) that Harley Friend had been informed in the 1930's of Friend Paper Company being the proprietary business of Wilber Friend (Rt. 311), and (2) that Harley Friend had been informed in 1948 or 1949 of Wilber Friend's intention to go into business at retail on the west coast with the name Friend and Company (Rt. 341), and of passing the Friend and Company business card to his brothers (Rt. 389, 392). This is the only admissible testimony on this subject as William Friend's attempt to rebut it was mere opinion or hearsay. Plaintiff seeks to eliminate defendants' testimony by characterizing all his testimony as unbelievable. The particular and only testimony which the district judge referred to as "unbelievable" (p. 13 of plaintiff's brief) was opinion-type testimony and not concrete factual testimony. The testimony to which the judge's Memorandum alludes (Ct. 467) appears as follows (Rt. 54):

"Q.      Did you have any general offices in the  
Chicago area?

"A.      I believe that would be a matter of personal



opinion. I did have some sort of an office in that area.

"Q. What was the nature of that office?

"A. The office that I had in my home that my son conducted for me, handling my mail and various duties that I asked him to do."

It is possible to differ with Wilber Friend's opinion as to what constitutes an office, but it is hardly possible to avoid the observation that in this testimony, as well as all other testimony, he did not evade or distort any of the underlying concrete facts. In Fleischmann Distilling Corp. v. Maier Brewing Co., 314 F.2d 149 (9 Cir. 1963), this Court said (at pp. 158-159):

"Mr. McCormick (McCormick On Evidence, Sec. 243) notes that by no means is every sort of testimony of a party to be treated as a conclusive or judicial admission. Among the exceptions noted are cases in which the testimony of the party is in the nature of an opinion. . . . The rule is inapplicable, moreover, 'when the party's testimony is an estimate or opinion rather than an assertion of concrete fact'."

E. The Witness Poole Was Impeached.

---

At p. 21 of its brief plaintiff refers to Melvin Poole's testimony that Wilber Friend "suggested" that he tell people that plaintiff and defendant were "one and the same" if they asked, and he himself did tell customers they were "one and the same" (Rt. 218). Mr.



Poole, a discharged former employee, was impeached in respect to this testimony that it was Wilber Friend's suggestion. At Rt. 226, line 14 to 228, line 6, he was asked to read his earlier deposition in which he gave the following testimony:

"Q. Did Mr. Friend give you any instructions on what to say in the event such a question was asked?

"A. No."

Following that last answer of his deposition he was asked at the trial (Rt. 228, line 3):

"Q. Is that your testimony now, Mr. Poole?

"A. Yes.

"Q. Do you wish to make an explanation?

"A. No explanation. Read further."

The further reading (in Rt. 228 and 229) clearly states that Mr. Poole took it upon himself to deceive the customers, well knowing the falsity of his statements to them.

Selling was not Mr. Poole's job at Friend and Company. He only did this selling on four occasions and at his own request. None of these four occasions was for more than one day excepting a two week trip (Rt. 236-237).

Mr. Poole's testimony that in doing this he ran into about 50 prospects who had been former customers of H. A. Friend and Company, and whom he told that plaintiff and defendant were one and the same (Rt. 235, 236) is phenomenal, considering that plaintiff's counsel during his travels through the western states for depositions on confusion, located far fewer than this, and Wilber



Friend could recollect only 5. Mr. Poole's testimony is a gross exaggeration.

### SUMMARY

Many pages of plaintiff's brief are taken up with discussion of the relatively few confused customers and "heinous" conduct of defendant such as one or two instances where the defendant did not correct the customer's impression that defendant had the customer's die in Zion; and the format of the defendants' catalogs with reference to Zion. While they may not be laudable, the code of conduct involved is caveat emptor rather than a lawyer's code of ethics. Defendants submit that disproportionate weight should not be given to the approximately sixteen customers who indicated confusion. It is submitted that the excessive damages and attorney's fees awarded by the district court do not correspond with these few scattered instances.

When plaintiff's counsel agreed with the district judge's statement that Harley Friend had slept on his rights (quoted in Appendix "C"), he was stating in effect what Harley Friend had actually done, namely, lay the matter to rest knowing that Wilber was using the name Friend and Company, and knowing that only Gilbert Paper Company owned any exclusive rights in "Barrister Bond" (As Wilber knew also), and believing, correctly, that all the other trademarks were "free-marks" (as Wilber believed also). The only thing Harley may not have known was the format of the catalogs.





It is too late now for the present plaintiff to resurrect what Harley Friend had years ago knowingly and deliberately laid to rest.

Respectfully submitted,

ANGUS & MON

D. GORDON ANGUS

ROBERT M. ANGUS

Attorneys for Defendants-Appellants



## APPENDIX A



## APPENDIX A

"(15 U.S.C. 1126g) . Trade names or commercial names protected.

Trade names or commercial names of persons described in paragraph (b) of this section shall be protected without the obligation of filing or registration whether or not they form parts of marks. "

"(15 U.S.C. 1126h). Protection against Unfair Competition.

Any person designated in paragraph (b) of this section as entitled to the benefits and subject to the provisions of this Act shall be entitled to effective protection against unfair competition, and the remedies provided herein for infringement of marks shall be available so far as they may be appropriate in repressing acts of unfair competition. "

.....

### Business and Professions Code §17500

" §17500. Making or disseminating untrue or misleading statement unlawful. It is unlawful for any person, firm, corporation or association, or any employee thereof with intent directly or indirectly to dispose of real or personal property or to perform services, professional or otherwise, or anything of any nature whatsoever or to



induce the public to enter into any obligation relating thereto, to make or disseminate or cause to be made or disseminated before the public in this State, in any newspaper or other publication, or any advertising device, or by public outcry or proclamation, or in any other manner or means whatever, any statement, concerning such real or personal property or services, professional or otherwise, or concerning any circumstance or matter of fact connected with the proposed performance or disposition thereof, which is untrue or misleading, and which is known, or which by the exercise of reasonable care should be known, to be untrue or misleading, or for any such person, firm, or corporation to so make or disseminate or cause to be so made or disseminated any such statement as part of a plan or scheme with the intent not to sell such personal property or services, professional or otherwise, so advertised at the price stated therein, or as so advertised."

.....

California Civil Code, /§3369. (Relief not granted to enforce penalty, forfeiture or penal law: Exceptions: Unfair competition enjoined: Definitions: Who may prosecute actions.)

3. [Definitions.] As used in this section, unfair competition shall mean and include unlawful, unfair or





fraudulent business practice and unfair, untrue or misleading advertising and any act denounced by Business and Professions Code Sections 15700 to 17535, inclusive.



## APPENDIX B



## APPENDIX B

In California Apparel Creators v. Wiedner of California, 162 F.2d 893 (2 Cir. 1947), the court held, at page 900:

"To recover damages or to receive protective relief against the actions of these defendants, plaintiffs must therefore show not only a representation by defendants which is false and deceitful in the sense of luring customers to their doors wrongfully, but also that plaintiffs have lost their own rightful custom thereby."

The court made the following pertinent statement (at page 901):

"It is nowhere claimed that there is, or will be, available any proof of specific customers diverted from specific plaintiffs through the actions of these defendants. The only possible suggestion of injury is by a strained process of inference, as by the suggested conclusion that the general effects of defendants' actions must have diverted customers from the plaintiffs.

"Here we are met with the direct difficulty found insurmountable by Justice Holmes in the Ely - Norris Safe Co. case, that there is no reason to assume that defendants' customers, deceived as to the place of origin, would otherwise have bought of these plaintiffs. Not only are these



plaintiffs a small portion of the total California manufacturers, but they do not even appear to be large manufacturers themselves or to control any considerable portion of the California business. The reasons which led the Supreme Court to dismiss the bill in that case on its allegations are therefore more pertinent here, where the limited extent of the plaintiffs' share of the total business definitely appears and is not merely a matter of inference, as there."

.....

In International Association of Cleaning and Dye House Workers v. Landowitz, 20 C.2d 418 (1942), the court, discussing Civil Code §3369, said (at pp.421 and 422);

"As used in that section, unfair competition means 'unfair of (sic) fraudulent business practice and unfair, untrue or misleading advertising ...' (Civ. Code, §3369 (3) . ) Omitting the question of false advertising which is not involved in this case, the statutory definition of 'unfair competition' thus incorporated in Civil Code, §3369, is not essentially different from that which has historically furnished the basis for equity injunctions against unfair competition. Such injunctions were not directed against business practices like the ones involved here which, if unfair, are made so under special statute. Those actions





ordinarily involved the fraudulent passing off of one persons' goods as those of another. "

.....

In Show Management v. Hearst Publishing Co., Inc., 196 CA 2nd. 606 (1961), the District Court of Appeals held, at page 615:

"While the American Washboard case has been criticized (see 1 Callmann, The Law of Unfair Competition and Trade-Marks [2d. ed.] §81. 1, pp. 298-300; Handler, False and Misleading Advertising, 39 Yale L. J. 22, 36-37), it appears to represent the view currently prevailing. Callmann states: 'Absent special legislation or evidence of disparagement or an intent to drive a competitor out of business, the Washboard decision has, with few modifications, remained the law of the land'. (1 Callmann, The Law of Unfair Competition and Trade-Marks [2d. ed.] §18. 1, p. 300; see 1 Nims, The Law of Unfair Competition and Trade-Marks [4th ed.] §9, p. 50.) In another place Callmann says: 'In the cases involving false advertising, however, the deception has been regarded as a tort only against the customer, and the competitor has been afforded no redress unless he was in a position to prove special damage. The courts have not as yet recognized that, as against the competitor, such



deception is another means of unfair competition and constitutes an independent tort. ' (Callmann, False Advertising as a Competitive Tort, 48 Colum.L.Rev. 876). "



## APPENDIX C



## APPENDIX C

Plaintiff's Answer to Interrogatory No. 3 filed  
January 22, 1965. (Ct. 61-62)

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"Total Sales of Plaintiff H. A. Friend and Company, Inc. and its predecessors in each of the calendar years 1940 through 1964 are unavailable. Said sales for those years, the fiscal year ending June 30, with exception of 1952, for which records are temporarily unavailable, are as follows:

1941	\$105,283.15
1942	108,535.75
1943	93,384.52
1944	103,309.23
1945	108,928.42
1946	166,412.90
1947	225,735.24
1948	223,267.44
1949	246,984.20
1950	274,150.12
1951	338,796.72
1952	
1953	357,367.63
1954	381,397.17





1955	\$413,663.05
1956	445,149.78
1957	461,545.67
1958	490,107.17
1959	529,283.31
1960	614,459.44
1961	626,248.37
1962	660,560.68
1963	691,978.54
1964	760,000.00

[From Answer to Int.  
No. 5, ct. 325]

1965	840,000.00 " " "
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Plaintiff's Answer to Interrogatory No. 4 filed January 22, 1965 regarding dollar value of its sales in the states of California, Nevada, Oregon, Washington, Idaho, Utah, Arizona, Montana, Wyoming, Colorado, New Mexico, the Western part of Texas, Alaska and Hawaii. (Ct. 62, 63)

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"Sales by Plaintiff and its predecessors, in the above group of states, to the extent presently available from Plaintiff's records are as follows: (Most records prior to 1942 are unavailable because believed to have been lost in flooding of basement of H. A. Friend and Co. in 1942. Records after the first half of 1961 were not kept on a geographical basis and compilation would require individual checking of some 6,000 customer accounts).



1942	\$ 421.08	
1943	444.52	
1944	481.25	
1945	305.06	
1946	302.33	
1947	765.73	
1948	1,068.93	
1949	932.88	
1950	1,361.13	
1951	2,069.97	
1952	1,696.03	
1953	2,152.42	
1954	785.03	
1955	1,180.68	
1956	2,275.05	
1957	4,001.79	
1958	5,375.60	
1959	5,586.89	
1960	7,889.21	
1961	8,843.00	approx.
1962	8,843.00	"
1963	8,843.00	"
1964	8,843.00	"
1965	8,843.00	"



Extract from Plaintiff's Answer to Interrogatory No. 6  
filed January 22, 1965 in regard to the number of customers  
plaintiff had in each of the western states in each of the  
calendar years 1940 through 1964. (Ct. 64)

---

"It is not possible to state, without consulting the various purchasers, in what specific years such purchasers were "customers". The purchasers of the products involved do not notify plaintiff or its predecessors when they change over to a new supplier or when an individual has died. Accordingly, in a good faith effort to answer defendant's interrogatory, plaintiff states that the geographical file for each listed state has account sheets for the number of individual accounts following the state set forth below in the years covered by such records, namely, 1943 through the first half of 1961.

<u>STATE</u>	<u>NUMBER OF ACCOUNTS</u>
Arizona	9
California	20
Colorado	13
Idaho	4
Montana	17
New Mexico	13
Nevada	1
Oregon	8
Texas	55



Utah	7
Washington	26
Wyoming	10''





EXHIBIT M.

GILBERT PAPER COMPANY

Menasha, Wisconsin

October 1, 1948

H. A. Friend Manufacturing Co.  
Zion, Illinois

Attention: Mr. H. A. Friend

Dear Mr. Friend:

A short time back you expressed a desire to trace certain private watermarks which you have been purchasing through our distributor, the Friend Paper Company, and manufactured by the Gilbert Paper Company. Our records show three watermarks which you are now using and date prior to the time of their purchase through the Friend Paper Company. These marks are Security Parchment, Plymouth Bond and Barrister Bond.

You undoubtedly recall the circumstances under which these marks were obtained. The Security Parchment watermark was purchased by the Gilbert Paper Company from a New York individual, and the Barrister Bond mark was assigned to us by the Southworth Paper Company. The Plymouth Bond mark represented a spare dandy roll we had in the mill, but we never pursued the ownership of this watermark.

The Friend Paper Company has a number of other papers which we understood you purchased from them and which marks are exclusive to them in their territory. These watermarks are



EXHIBIT M. (Continued)

Friends Legal Linen, Title Linen Bond, Security Onionskin,  
and Barrister Onionskin.

Inasmuch as you have been purchasing these watermarked  
papers for a long period of time as made by the Gilbert Paper  
Company, we sincerely trust we may continue to supply them  
to you. Due to the presence of these same watermarks with the  
Friend Paper Company it would be our distinct preference to see  
a continuance of purchases through this source, which we assume  
is highly desirable to you also.

Yours very truly,

GILBERT PAPER COMPANY  
s/ J. D. Schmerein, Sales Depart-  
ment



EXHIBIT M. (Continued)

GILBERT PAPER COMPANY

Menasha, Wisconsin

October 7, 1948

H. A. Friend and Company

Zion, Illinois

Attention: Mr. H. A. Friend

Dear Mr. Friend:

I think there is some confusion in your mind as to the status of the watermarks Barrister Bond, Plymouth Bond and Security Parchment. It is true that they represented watermarks that we had in the mill and were not employing to any great extent. All we did was to offer their use to you. They had not been registered by the Gilbert Paper Company and it was only to the best of our knowledge that no interference could occur in your usage of those names.

The copyright laws in the United States have always been very bad and all that was necessary for anyone to do to acquire ownership or prevent the use by another party was to show prior usage. We ourselves encountered that difficulty in our own Lancaster Bond when after five or six years of use we found a little printer in Maine had used that name and we were obliged to buy our mark from him. This party was very reasonable and did not try to hold us up as he might have done. We had another party using Equity Bond and we were forced to discontinue that mark



EXHIBIT M. (Continued)

when Butler proved that they had prior usage.

Now, on the Barrister the only reason we had Mr. Dempsey in the picture was to try and bring assistance to you and our hopes were to prove that we had a prior usage of this watermark over Southworth. We recognized that there was nothing we could do about it when Southworth proved usage prior to that of our own. Later on, with a small payment for registration charges, they were kind enough to assign their right to us.

Then a similar situation developed on the use of the word Security. We eventually bought rights on this mark from a paper merchant in New York City and I think that they had acquired rights from an eastern paper mill. Once again they interceded our use and once again we came to your assistance by paying at that time a sum of \$5,000.00.

The word Plymouth is recorded in Lockwood's Directory by a number of people but it has never come to a test case.

We do not pretend to be lawyers, but we have fought a good many battles over watermarks and inevitably it has hinged on that "prior usage" theory. There have been some recent changes, as you probably know, in the copyright laws, trying to bring about a little more just and clarified position.

As I recall the original proposition, you were given the use of those marks in Illinois and all of the states contiguous to Illinois. Later on as your son took over in a somewhat wider range, we tried to offer greater protection.

You say you cannot understand why a letter written by





EXHIBIT M. (Continued)

John Schmerein went forth, and we do not understand your irritation because you asked for the status of the marks, and the information that John provided he secured from the writer.

I am sure that you will agree that we have given you nothing but the fullest cooperation in the many years that you have bought our products from several different sources.

Yours very truly,

GILBERT PAPER COMPANY

s/ T. M. Gilbert, Vice President



EXHIBIT N.

April 19, 1949

H. A. Friend and Company,

Zion, Illinois

Attention: Mr. H. A. Friend

Dear Mr. Friend:

I am very glad that we had our meeting in Zion because it has clarified many points in the situation. We are now going to make our billings directly to H. A. Friend and Company and invoices on recent shipments have now gone forward to you.

The shipment of Barrister Onionskin that just went forward was made on the 75% Rag quality, but I have now issued instructions that all Barrister Onionskin in the future is to be manufactured in our all-rag or Lifetime quality.

I regret very much that it became necessary to sever all relationships between H. A. Friend & Company and the Friend Paper Company. We can understand now the necessity for this action and the only disturbing factor is that I am afraid we are going to have further difficulties with Web, particularly on the Barrister Bond, all of which arose out of our complete misunderstanding of the circumstances and the fact that you and Web are not in complete agreement and perfect accord. Although Web stated in your office that he would not hold forth on his right to Barrister Bond by purchase from us, he indicated to Johnny when you and I were going through your plant that he had other thoughts. He stated that he was committed on a very extensive

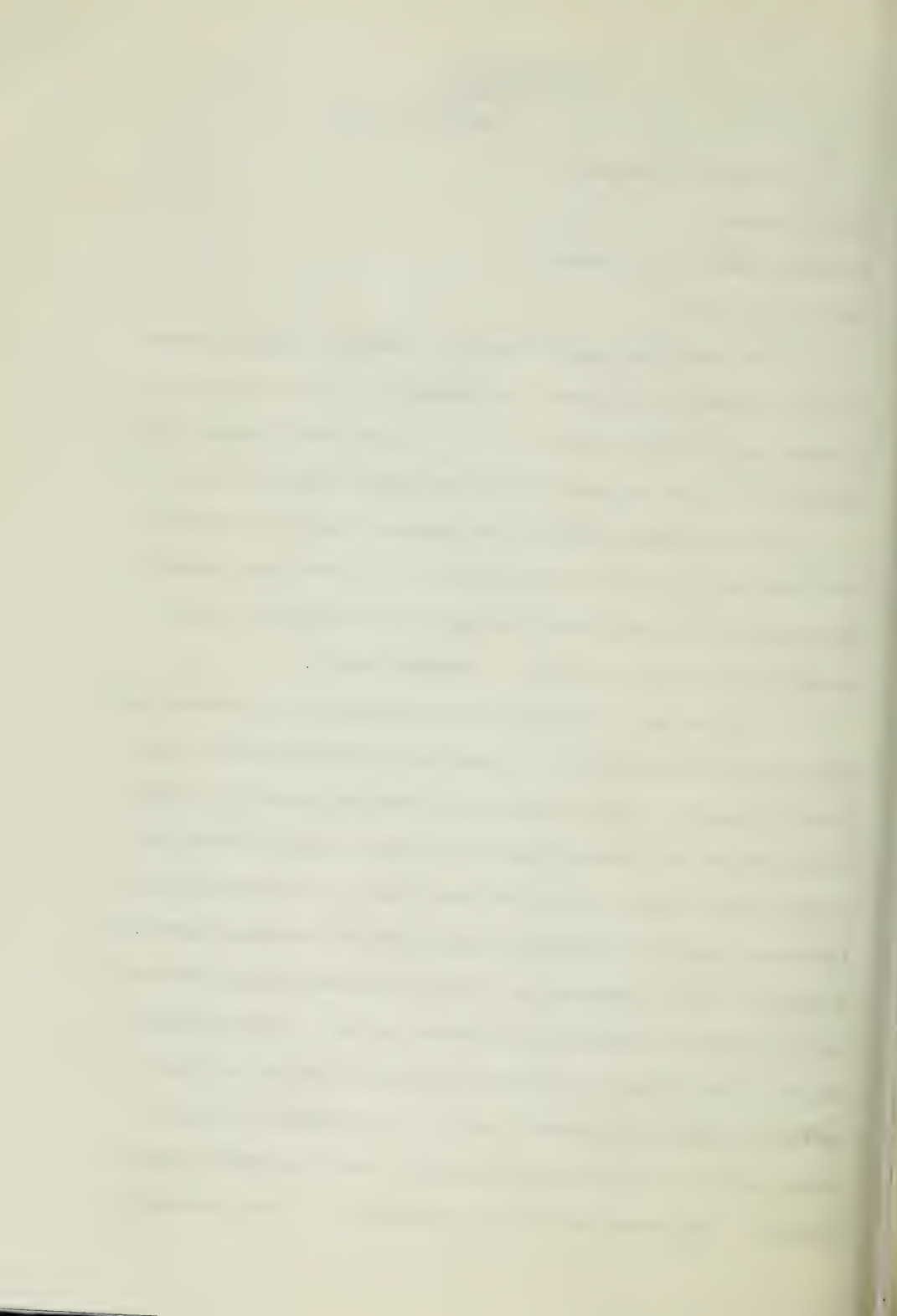


EXHIBIT N. (Continued)

advertising program, and I fear right now that he is going to try to make it very difficult for us to take the Barrister Bond back, even though there was a complete misunderstanding of facts and what eventually turned out to be a misrepresentation.

At any rate, we are now going to send him a check for \$400.00, stating that we cannot complete the assignment of the Barrister mark, and from that point on we will have to wait and see just what the developments are. It is certainly a very disagreeable and unfortunate set of events.

Yours very truly,

GILBERT PAPER COMPANY

TMG:

.....



H. A. FRIEND & COMPANY,

Zion, Illinois

April 20, 1949

Gilbert Paper Company

Menasha, Wisconsin

Attention of Mr. T. M. Gilbert

Gentlemen:

I received your letter this morning of April 19th, and it is very gratifying to know the position you have taken in this matter. I have not, for one moment, doubted the integrity or honesty of the Gilbert Paper Company in regard to any matter whatsoever, as they have always proven more than fair with me.

I can see from your letter that you have thoroughly grasped the whole situation, although it would be quite impossible for you to understand all of the things leading up to our disappointing situation. In regard to Web's position regarding the Barrister Bond watermark, I am sure you will find out this is all bluff.

My honest opinion is, he has no connections anywhere on Barrister Bond, either in the east or west; neither has he gone into any advertising that amounts to anything, only what he printed on our own presses, soliciting paper business, which we know all about. Owing to the fact that the other three watermarks appear to be free-marks, it would only be necessary for him to get an assignment on Barrister Bond, in order to put H. A. Friend &





EXHIBIT N. (Continued)

Company completely under his thumb, and this is the reason why he is so desperate over that mark. You see, I understand his line of deception and untruthfulness. In many respects, deception is far worse than out-right lying.

There is no doubt whatever but what H. A. Friend & Company has, and always has had, a very definite interest in the Barrister Bond watermark, because of the long periods of years they have distributed it unmolested.

I have not called Web's attention to the fact that as a partner in this partnership, he also had a very definite interest to the extent of the amount of his partnership holdings. Owing to the fact that I have bought that partnership interest, what interest he had now belongs to me, and legally he has no right whatever to use it, from the standpoint of H. A. Friend & Company, so therefore, should he start any trouble or try to sell paper marked Barrister Bond, I will immediately start suit against him for violating his sales contract. You having the legal right, can attack him from that standpoint, so I have no doubt whatever but what we can handle him in a first-class manner. I only trust that he has good sense and judgment enough not to interfere any further.

I am certainly glad you boys came down, because I am sure it helped me a great deal. With kindest regards, I am

Cordially yours,

H. A. FRIEND & COMPANY

s/ H. A. Friend

.....



EXHIBIT Q.

GILBERT PAPER COMPANY

Menasha, Wisconsin

October 13, 1955

Mr. H. A. Friend

H. A. Friend and Company

Zion, Illinois

Dear Harley:

When you were up at the mill we were talking about the watermark BARRISTER BOND. We had registered this watermark and the usage was given to you many years ago. Later a dispute on the ownership arose with the Wouthworth Paper Company and we now have in our possession an assignment of their rights, if they had any, to the Gilbert Paper Company. The watermark is presently registered under the Lanham Act and it is our intention to keep the watermark properly registered in terms of that Act.

On checking our records, I find that we have constructed two BARRISTER BOND dandies, both of which were paid for as to the entire cost by our company.

We can understand your worry and that of your sons in the fact that in years to come changes could occur wherein someone here might not recall the circumstances.

On our part, watermarks are very hard to come by these days, and if at any time in the future, which is not contemplated



EXHIBIT Q. (Continued)

at the moment at all, you should decide to give up that name we would like to utilize it at other points.

At one time we offered to you a proposition wherein you could acquire the rights to the watermark for the sum of \$300.00 as long as the business stays with the Gilbert Paper Company and that you could acquire full rights for the sum of \$600.00. This was to cover construction of the dandies, our payment to Southworth, the registration costs, etc. Our lawyer does not approve of the first principle and, frankly, we can see no reason why you should pay us \$600.00 as long as you have the usage of the roll along with this letter that we are now writing.

Thus, we say to you that we are now offering exclusive usage of our registered watermark BARRISTER BOND for an indefinite period of time and so long as the annual tonnage exceeds a figure of 25,000 pounds per year. Further, if disagreement should ever occur between our two companies, which it now seems almost impossible to conceive, we will offer to you an assignment and outright sale of the watermark BARRISTER BOND for the sum of \$600.00 plus any further expenses such as registration, requirement of a new roll, and so on, that could occur from the date of this writing.

This offer is made because of the very fine respect we hold for you and your company and our many long years of splendid relationship.

To avoid any possible loss of correspondence, it would seem well if this were renewed at least every ten years.



EXHIBIT Q. (Continued)

With this statement on our part you undoubtedly will prefer to carry on in the same fashion that we have over our long dealings in the past.

I was glad to see you looking so well and I now want to send best regards to you and your sons.

Very truly yours,

GILBERT PAPER COMPANY

s/ T. M. Gilbert, President

.....





EXHIBIT AF

April 3, 1957

H. A. Friend & Company

Zion, Illinois

Attention: Mr. W. F. Friend

Gentlemen:

We have your letter of March 29th in which you state that your file card on engraved stationery indicates that we have not purchased any stationery from you since February, 1951.

As I recall it, it was along about that time that we received a letter advising of the opening of an office at 55 West Green St., Pasadena, California, for the purpose of better enabling you to serve your west coast customers and suggesting that we enter our future orders through that office.

Since the Pasadena plant was opened we have been ordering all of our requirements from that plant.

In referring back to our files, I note that the name of the company in Pasadena is "Friend & Company" whereas your Zion firm is known as "H. A. Friend & Company". Perhaps we became confused in thinking the two companies were one and the same. Are we correct in assuming that the Pasadena firm is an affiliate of yours or a branch of your company?

Yours very truly,

LYCETTE, DIAMOND & SYLVES-  
TER

By

EWZ:ad



EXHIBIT AG

H. A. FRIEND & COMPANY

Zion, Illinois

April 5, 1957

Lycette, Diamond & Sylvester, Attys.

Eighth Floor Hodge Bldg.

Seattle 4, Washington

Gentlemen:

We are in receipt of your nice letter of the 3rd, and are sorry to know any firm would follow such a line of duplicity, however, several other customers of ours on the coast write us in this same manner.

This boy is my oldest son and was connected with this business in Zion but now has no connections with H. A. FRIEND & COMPANY in any manner. In fact, I was compelled to expell him from this business because of his misconduct.

We greatly appreciate your letter giving us this information and assure you, you will never get anything from this office but truth and honesty.

We would be pleased to take care of your needs again if you so desire.

Cordially yours,

H. A. FRIEND AND COMPANY

s/ H. A. Friend



Ct. 57-58

Plaintiff's Response to Request for Admissions Nos. 3-6

and 8, filed November 3, 1946.

Request 3: The particular year in which said visit was 1955.

Answer 3: Denied. Plaintiff states, however, that the said Howard Friend visited defendant Wilber H. Friend in the year 1956.

Request 4: When said Howard Friend first arrived at defendant's said place of business on the day of said visit he found that the defendant Wilber H. Friend was not in his office.

Answer 4: Admitted.

Request 5: Somewhat later on the same day of said first arrival, Howard Friend returned to the office of defendant and found the defendant was in his place of business.

Answer 5: Admitted.

Request 6: Upon finding the defendant to be present in his office, on said day, Howard Friend chatted with defendant, Wilber H. Friend, for a time within the premises of defendant's said place of business in Pasadena, California.

Answer 6: Admitted.

Request 8: The specific address of defendant's said place of business on the day of said visit was 55 West Green Street, Pasadena, California.

Answer 8: Admitted.



"THE COURT: Wouldn't we have to say, assuming that Mr. H. A. Friend did not know some of the things that the defendant was doing, that he was extremely trusting and somewhat derelict in not learning what was going on in the Friend & Company?

MR. BRIZINA: I would say that that is a very accurate statement. I don't know whether 'naive' is the right word.

THE COURT: You can understand an older man being naive, and particularly if it is his oldest son, but what about the younger brothers? Is the court supposed to conclude that all of these years he was operating the Friend Paper Company as his own private enterprise contrary to his fiduciary obligation, and that since 1949 he has been engaged in a competing business, all unbeknown to them? Weren't they asleep, too?

MR. BRIZINA: Yes.

THE COURT: There is such a thing as laches and sleeping on your rights, is there not?"

.....

"THE COURT: When you have active fraud, it tends to lengthen the time in which that can run along.

What about William's testimony that they actually didn't know of this activity in the retail trade until 1962?





MR. ANGUS: Well, I don't think that he is correct because, even if it is true that William doesn't know it, Howard certainly did.

THE COURT: What is the record that shows Mr. Howard did? Is he the one that came and visited?

MR. ANGUS: He walked through the door that said "Friend & Company".

THE COURT: "Wholesale Paper".

MR. ANGUS: Yes, but that format is precisely the format that the plaintiff H. A. Friend invented himself, and so therefore

- - -

THE COURT: What do you mean? Oh, I see what you mean.

MR. ANGUS: The plaintiff's format is H. A. Friend & Company with "Wholesale Paper" under it, and then the address. Therefore, when Howard Friend walked in and saw that same format, it must have banged him in the eye, "Well, that means the same thing."

.....

Rt. 596-598

"MR. ANGUS: He said he gave his brother his card, his business card, Friend & Company.

THE COURT: I am willing to assume that his brothers were on notice that he was engaged in business as Friend & Company.



THE COURT: (continued) Howard may have seen it when he went through the door and he may not have. At least he was on notice that Wilber Friend was engaged in a business known as Friend & Company, Wholesale Paper, at least --

MR. ANGUS: Just like their sign, Wholesale Paper.

THE COURT: But I have no indication -- pull back.

There is only one indication that I know of that his father or any of his brothers before 1962 had any knowledge that Wilber Friend was in the retail paper business and that he was passing his company off as somehow related to the H. A. Friend & Company, and that one illustration is that letter of 1957, I think it was, where his father said -- apologized and expressed his regret and made some rather unpleasant comments about Wilber, but apparently his father, as some fathers do, held that close to his chest and didn't pass it around the office anyway.

MR. ANGUS: And a year earlier Howard must have done the same thing, because he visited in 1956.

THE COURT: What?

MR. ANGUS: He held it in his chest that the defendant was doing business as Friend & Company.

THE COURT: He may have noticed the sign. On the other hand, sometimes he was glad to see his brother and maybe the door was open and he goes steaming through the door and doesn't necessarily read the thing --

MR. ANGUS: He went through it twice, your Honor.

THE COURT: I have already said that he was on notice.  
.....



In the  
**United States Court of Appeals**  
FOR THE NINTH CIRCUIT

H. A. FRIEND AND COMPANY, INC.,  
*Plaintiff-Appellee, Cross-Appellant,*  
*vs.*

FRIEND AND COMPANY, a corporation,  
and WILBER H. FRIEND,  
*Defendants-Appellants, Cross-Appellees.*

Appeal from the United States District Court  
for the Central District of California  
WILLIAM P. GRAY, *Judge Presiding*

**BRIEF ON BEHALF OF APPELLEE AND  
CROSS APPELLANT, H. A. FRIEND AND  
COMPANY, INC**

ALBERTS, BREZINA & LUND  
JOHN C. BREZINA  
JOE C. YOUNG

33 North Dearborn Street  
Chicago, Illinois 60602

HARRIS, KIECH, RUSSELL & KERN

CHARLES E. WILLS  
900 Subway Terminal Bldg.  
417 South Hill Street  
Los Angeles, California 90013

Attorneys for Plaintiff-Appellee,  
Cross-Appellant



## INDEX

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	PAGE
I. Introduction .....	1
II. Issues .....	2
III. The Findings Of The District Court Are Clearly And Amply Supported By The Record And Sustain All Of The Separate Causes Of Action For Common Law Unfair Competition, Statutory Trademark Infringement And Misrepresentation Of Paper Quality .....	5
IV. The District Court Found, In Connection With The Primary Cause Of Action For Common Law, That Defendant Imitated Plaintiff's Trade Name In The Retail Paper And Stationery Business And Followed A Course Of Conduct Calculated To Confuse And Deceive Customers And To Trade On Plaintiff's Good Will .....	11
V. Infringement By Defendant's Use Of The Trademarks "FRIEND'S", "BARRISTER BOND" And "BANNER BOND", Though Separate Causes Of Action, Are Part Of Defendant's Plan To Trade On Plaintiff's Goodwill And Benefit From Plaintiff's Reputation ..	23
VI. Defendant Delivered Grades Of Paper To Customers Which Were Inferior To The Grades Listed In Defendant's Catalogs And Price Lists And Ordered By Customers. As A Result, The Customers Were Cheated; Defendant Had An Apparent Price Advantage Over Plaintiff, Which It Used To Obtain Customers While Selling Under The Same Marks; Plaintiff's Reputation Was Subject To Any Prejudice Accruing As A Result Of Sale Of Such Goods; And Defendant Saved Large Sums Of Money In Paper Costs .....	29



- VII. The Doctrine Of Laches Does Not Apply In This Case Because Plaintiff Took Timely Action Once Defendants Were Known To Its Participating Officers, Because Defendant Has Been Engaged In Deliberate And Planned Unfair Competition And Trademark Infringement, And Because There Has Been No Reliance, Detriment, Or Change Of Position On The Part Of Defendant .....
- VIII. The Findings By The District Court Of Fraudulent Unfair Trade Practices, Willful Trademark Infringement, And A Consistent Design By Defendant To Trade On The Goodwill Of Plaintiff Are Abundantly Supported By The Record, And There Is No Credible Evidence To Dispute Those Findings .....
- IX. Where Defendant Engaged In False Advertising And Substitution Of Inferior Goods Such Conduct Should Be Enjoined And Damages And Profits Awarded Under 15 U.S.C. 1125(a) Or Under California Law Of Unfair Competition .....
- X. A Court May Determine The Amount Of Damages By Reasonable Approximation From Evidence In The Record Once The Fact Of Damage Is Established .....
- XI. The District Court's Finding That The Equitable Doctrines Of Laches, Acquiescence And Estoppel Do Not Protect Defendant From An Award Of Injunctive Relief And Monetary Recovery Cannot Be Called A Clear Abuse Of Discretion .....
- XII. The District Court Properly Awarded Partial Attorney's Fees To Plaintiff Because Of Defendant's Willful And Calculated Acts Of Unfair Competition Deliberately Designed To Trade On Plaintiff's Goodwill And To Defraud Purchasers .....

III. Assignments Of Error On Plaintiff's Cross Appeal .....	61
IV. Defendants Will Retain Financial Benefits From The Deliberate Infringement And Unfair Competition Which Could Reach Several Hundred Thousand Dollars, If Defendants' Profits Are Not Awarded, In Addition To The Award Of Compensatory Damages For Plaintiff's Lost Sales And Injury To Reputation ....	62
XV. Defendant Should Be Enjoined From All Use Of The Name "FRIEND" Because Of His Fraudulent Use Of The Name To Mislead Purchasers And As A Part Of A Plan To Trade On Plaintiff's Reputation .....	64
XVI. Cross Reference List Relating Appellant's Assignment Of Errors To Portions Of This Brief .....	65
Summary Of Relief Sought .....	67
Appendix I—Excerpts From Catalogs Of Defendant Friend & Company Showing Misrepresentation ....	1a
Appendix II—Cross Relevant Statutory Material ....	16a

## TABLE OF AUTHORITIES CITED

## CASES

American Philatelic Society v. Claibourne, 3 Cal. 2d 289, 46 P. 2d 135, 140 (1935) .....	43, 46, 47
Apple Growers Assn. v. Pelletti Fruit Co., Inc., 153 F.Supp. 948, 115 USPQ 171 (DC ND Cal. 1957) ..	50
Audio Fidelity, Inc. v. High Fidelity Recordings, Inc. (9 Cir. 1960) 283 F.2d 551, 557, 558 .....	42, 44
Audio Fidelity, Inc. v. High Fidelity Recordings, Inc., 305 F.2d 86, 134 USPQ 93 (9 Cir. 1962) .....	56

Bloom v. U. S., 1959, 272 F.2d 215, 223 .....	4
Brooks Bros. v. Brooks Clothing of California, Inc., 60 F.Supp. 442, 65 USPQ 301 (DC SD Cal. 1945) ..46,	4
Chamberlain v. Columbia Pictures, 186 F.2d 923 (9 Cir. 1951) .....	46, 4
Cleo Syrup Corp. v. Coca Cola Co., 139 F.2d 416 (CA 8, 1943) .....	4
Eastman Kodak Company v. Southern Photo Ma- terials Company, 273 U.S. 359 .....	4
Ely-Norris Safe Co. v. Mosler Safe Co., 7 F.2d 603, (2 Cir. 1925) .....	4
Everest & Jennings, Inc. v. E & J Mfg. Co., CA 9, 263 F.2d 254 .....	6
Federal-Mogul-Bower Bearings, Inc. v. Azoff, 313 F.2d 405, 136 USPQ 500 (6 Cir. 1963) .....	45, 4
Fleischmann Distilling Corp. v. Maier Brewing Co., 386 US 714 .....	55, 56, 57, 5
General Motors Corp. v. Smith, 138 USPQ 382 (DC SD Cal. 1963) .....	5
Gillons v. Shell Co. of California (CA 9, 1936), 86 F.2d 600 .....	5
Glenn v. Advertising Publications, Inc., 251 F.Supp. 889, 148 USPQ 645 (SD NY 1966) .....	4
Gold Seal Co. v. Weeks, 129 F.Supp. 928 DDC 1955 ..45,	4
Grace Bros. v. C.I.R., 1949, 173 F.2d 170 .....	4
Hesse v. Grossman, Cal. App. 313 P.2d 625 (1957) ..	4
Hulbert Oil & Grease Co. v. Hulbert Oil & Grease Co. ..	5
L'Aiglon Apparel v. Lana Lobell, Inc., 214 F.2d 649 (3 Cir. 1954) .....	45, 4
Lane Bryant v. Maternity Lane, 173 F.2d 559 (9 Cir.) .....	6

Assiter v. Guy F. Atkinson Co., 176 F.2d 984, 993 ....	41
Little Tavern Shops v. Davis, 116 F.2d 903, 48 USPQ 161 (4 Cir. 1941) .....	45
Angren v. Freeman, 1962, 307 F.2d 104 .....	6, 41
Maier Brewing Co. v. Fleischmann Distilling Corp., 359 F.2d 156, 149 USPQ 89 .....	49, 54, 55, 62, 63
Maternally Yours v. Your Maternity Shop, 234 F.2d 538 (2 Cir. 1955) .....	45
Max Factor Co. v. Factor, 226 F.Supp. 120, 140 USPQ 166 (DC SD Cal. 1963) .....	65
McCord v. Flotnick, 108 Cal. App. 2d 392, 239 P.2d 32 (1951) .....	46, 63
Menendez v. Holt, 120 U.S. 514 .....	50, 51
Metro-Goldwin-Mayer, Inc. v. Lee, 137 USPQ 573 (Cal. Dist. Ct. of App. 1963) .....	44
Monsanto Chemical Co. v. Perfect Fit Products, 349 F.2d 389, 146 USPQ 512 (2 Cir. 1965 Cert. den. 383 U.S. 942, 16 L.Ed. 2d 206, 148 USPQ 772, 1966) .....	45, 56, 57, 58, 63
Mutation Mink Breeders v. Lou Neirenberg Corp., 23 F.R.D. 155, 120 USPQ 270 (SD NY 1959) .....	45, 47
National Lead Co. v. Wolfe, 223 F.2d 195, 105 USPQ 462 (9 Cir. 1955) .....	44, 45, 50, 53, 54
National Van Lines, Inc. v. Dean, 237 F.2d 688, 111 USPQ 165 (9 Cir. 1956) .....	54, 56
Orwich Pharmacal Co. v. Hofmann La Roche, Inc., 180 F.Supp. 222 (D NJ 1960) .....	47
Parker v. Sager, 174 F.2d 657 (BC Cir. 1949) .....	50
Parkway Baking Co. v. Freihofer Baking Co., 255 F.2d 641 (3 Cir. 1958) .....	45
People v. National Research Co. of California, 133 USPQ 413 (Cal. Dist. Ct. of App. 1962) .....	44

Reconstruction Finance Corp. v. J. G. Meniham Corp., 312 U.S. 81, 48 USPQ 264 (1941) .....	60
Red Devil Tools v. Tip Top Brush Co., Inc., 157 USPQ 456 .....	57
S. C. Johnson & Son, Inc. v. Gold Seal Co., 230 F.2d 832, DC Cir. 1956 .....	45, 47
Scott Paper Co. v. Marcalus Co., 326 US 249, 67 USPQ 193 (1945) .....	51
Singer Manufacturing Co. v. Redlich, 109 F.Supp. 623, 96 USPQ 85 (DC SD Cal. 1952) .....	56, 61
Smith-Victor Corp. v. Sylvania Electric Products, Inc., 242 F.Supp. 302 (ND Ill. 1965) .....	47
Snider v. England, 1967, 374 F.2d 717, 720 .....	6, 41
Speed Corporation v. Webster (CA 9, 1959), 262 F.2d 483 .....	51
Sprague v. Ticonic National Bank, 307 US 161 (1939) .....	59
Standard Oil Co. v. Standard Oil Co., 252 F.2d 65, 116 USPQ 176 .....	50
Stork Restaurant, Inc. v. Sahati, 116 F.2d 348 (9 Cir. 1948) .....	44
Tisch Hotels, Inc. v. American Inn Inc., 350 F.2d 609 (7th Cir. 1965) .....	27
United States v. Equitable Life Assur. Society of the United States, 384 U.S. 323 (1966) .....	60
Universal Oil Products v. Root Refining Co., 328 U.S. 823 (1946) .....	60
Universal Pictures Co. v. Harold Lloyd Corporation, 162 F.2d 354 (CA 9, 1947) .....	48
Visser v. Macres, 29 Cal. Reporter 367, 137 USPQ 492 (1963) .....	65
Whitman v. Walt Disney Productions, Inc. (CA 9, 1959), 263 F.2d 229 .....	51, 52

	PAGE
STATUTES	
U.S.C.	
§1105 .....	4
§1111 .....	16a
§1114(i) .....	16a
§1115(b) .....	17a
§1116 .....	18a
§1117 .....	20a
§1125(a) .....	4, 45, 21a
California Civil Code—	
§3294 .....	61, 21a
§3369 .....	44, 21a
Restatement of Torts—§761 .....	46
Article—"Where and What a Trademark Protects" 22	
Ill. Law Review, 379 .....	43
Cornick—"Trademarks - Successful Plaintiffs in Trademark Infringement Actions Under Actions Under the Lanham Act May Not Recover Attor- ney's Fees" 65 Mich. L. Rev. No. 3, January, 1967	
57 TM Rep. 343 .....	56





IN THE  
UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT

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**NOS. 22489 and 22489A**

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H. A. FRIEND AND COMPANY, INC.,

*vs.*

*Plaintiff-Appellee, Cross-Appellant,*

FRIEND AND COMPANY, a corporation,  
and WILBER H. FRIEND,

*Defendants-Appellants, Cross-Appellees.*

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Appeal from the United States District Court  
for the Central District of California

WILLIAM P. GRAY, *Judge Presiding*

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**BRIEF ON BEHALF OF APPELLEE AND  
CROSS-APPELLANT, H. A. FRIEND AND  
COMPANY, INC.**

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**I. INTRODUCTION**

Appellee does not believe that appellant's brief presents the case in a manner which is the most logical or comprehensible to present the facts and issues on this appeal. Appellant has made some 22 assignments of error criticizing essentially every finding of fact and conclusion of the District Court. Answering such assignment of error in sequence would not result in a readily understandable or cohesive presentation of the subject matter of this appeal.

Appellee's brief consists of four main parts: a statement of the issues, a part wherein the findings of fact of



the District Court are discussed and documented, the argument, and a section listing where the subject matter of each assignment of error of Appellant is covered in Appellee's brief.

As used herein, the word "Appellee" shall be used to refer to the plaintiff as cross appellant as well as the plaintiff-appellee. The word "Appellant" shall be used to refer to the defendant as cross-appellee as well as defendant-appellant.

## II. ISSUES

1. Is a finding that a party committed Intentional and Fraudulent Unfair Competition Proper where said party

(a) Used a trade name confusingly similar to the tradename of a prior user, in the identical business of said prior user;

(b) Represented orally and by mail to the customers of said user that a Western Division had been established which could expedite their orders and serve them cheaper, when there was no other division or other place of business outside of California;

(c) Issued catalogs and price lists which showed "General Offices" at the place of business of said prior user, and called itself a "Western Division" of said prior user, and falsely represented that it was established when said prior user was established;

(d) Told customers of said prior user that it was "one and the same" as said prior user and that it could get their printing dies from the "East", where said prior user was located; and

(e) sold goods which were of inferior grade to the grade of goods represented in its advertising and

price lists, and inferior to the grade of goods of said prior user, while using the trademarks and trade name of the prior user.

2. Is it proper for a court to conclude that there is trademark infringement where a prior user has adopted, used and made known trademarks which the later user employs with knowledge of the earlier user's use on identical goods sold to the same customers.

3. Is an award of monetary damage proper in a case of Intentional and Fraudulent Unfair Competition and trademark Infringement where:

(a) the damage resulting from said unfair competition and trademark infringement comprises a large number of small damages, each difficult and expensive to determine and prove with regard to exact amount; and

(b) the amount of said damage award is determined by the District Court on the basis of an interpolation from a representative sample of losses by plaintiff established and confirmed in the Record.

4. Is an award of damages based on probable loss to the reputation and goodwill of a prevailing party proper where the other party sells goods inferior to the grade of goods represented in its catalogs and price lists and such inferior goods are sold under the trademarks and tradename of the prevailing party.

5. Should a defendant be required, in addition to paying compensatory damages, to account for his profits and unjust enrichment resulting from a deliberate and calculated course of unfair competition and trademark infringement which, includes use of confusingly similar

trademarks and trade names on goods of a substantially lower grade than represented by defendant, where defendant has made large profits over and above the amount of compensatory damages awarded,

(a) Under the Federal Trademark Statute 15 U.S.C. 1105 et seq. and particularly 15 U.S.C. 1125(a); and

(b) Under the common law of unfair competition;

6. Is an award of partial attorney's fees proper where:

(a) there is a finding of intentional and fraudulent unfair competition;

(b) said unfair competition constitutes a substantial fraud on purchasers and other competition as well as the party bringing the action;

(c) said purchasers and other competitors are benefited by the results of said action; and

(d) plaintiff was forced to meet and reply to frivolous, redundant and unnecessary defenses, motions and contentions.

7. Is it clear abuse of discretion for a District Court to find that the equitable doctrines of laches, acquiescence and estoppel do not apply to protect a defendant where:

(a) the defendant is engaged in willful and fraudulent unfair competition and trademark infringement;

(b) the defendant did not rely on or change its position because of any action or inaction of the plaintiff;

(c) the plaintiff took appropriate action against the defendant as soon as the plaintiff obtained effective knowledge of the conduct of the defendant; and

(d) plaintiff's knowledge of much of the reprehensible conduct of the defendant did not arise until plaintiff had sued defendant for unfair competition and infringement.

8. Should a party be enjoined from all use of his surname where he has used the name as a part of a calculated, deliberate plan of unfair trade practices to confuse purchasers and to trade upon the goodwill and reputation of the prior user of the same surname.

**III. THE FINDINGS OF THE DISTRICT COURT, ARE CLEARLY AND AMPLY SUPPORTED BY THE RECORD AND SUSTAIN ALL OF THE SEPARATE CAUSES OF ACTION FOR COMMON LAW UNFAIR COMPETITION, STATUTORY TRADEMARK INFRINGEMENT AND MISREPRESENTATION OF PAPER QUALITY.**

Appellant's Statement of Facts, as well as its factual assertions, have so many omissions, and unsupported assertions which are directly contrary to the record that Appellee feels it necessary to state the facts. In doing so Appellee will follow, and quote liberally from, the presentation in the District Court's memorandum decision; a basically chronological presentation of the facts which form background of this case and the history of this litigation, and show that said facts are well documented in the Record.

This court has held that it does not sit to retry issues of fact, and that findings of fact including infer-

ences from undisputed facts or documents are presumptively correct and will not be set aside unless clearly erroneous. *Lungren v. Freeman*, CA9 1962 307 F2d 104. *Snider v. England*, CA9 374 F2d 717, 720.

Judge Gray's Memorandum decision began by stating the parties, issues and background facts as follows:

"H. A. Friend and Company, Incorporated, the plaintiff in each of the two cases here concerned, is owned by the youngest three of the four sons of Harley A. Friend, who was the founder of the business now operated by the plaintiff, and who died in 1959. His oldest son, Wilber, is the individual defendant and the principal owner of the corporate defendant, Friend and Company, which he formed and has operated under circumstances that brought about this bitter litigation. The complaints in these two actions charge the defendants with unfair competition, trademark infringement, and false description and advertising of stationery and they sell in competition with the plaintiff. Each of these charges is well founded, as will be discussed in this Memorandum of Decision.

#### THE BACKGROUND FACTS

"Harley A. Friend began to engage in the stationery business in Zion, Illinois, in 1908 and remained active in that business until his death. [CT 452 L 11-17, CT 449 L 21-25, CT 453 L 11-20, CT 452 3-10] By 1920, he was the principal owner of H. A. Friend and Company (the Company), which was located in Zion. The Company specialized in preparing and selling at retail printed and engraved stationery to members of the legal profession, principally in the mid-western part of the United States. [RT 12 L 19-25]. In about 1930, Harley's son, Wilber, became a full-time employee, [RT 15 L 14-16] and in the ensuing years he was allowed to assume more and more of



the management of the business of the Company.  
(See footnote 4 *infra*.)

“The principal source of the paper processed and sold by the Company was the mill operated by the Gilbert Paper Company (Gilbert), of Menasha, Wisconsin. Inasmuch as the Company was a retailer, it presumably could not obtain its paper directly from Gilbert, but instead was obliged to purchase through a wholesaler. In the early years, the wholesaler so used was the Moser Paper Company. [CT 451 L 18-22, CT 452 L 28-32] However, by the mid-thirties, the volume of the Company’s paper purchases had increased substantially, with the result that an arrangement was made with Gilbert whereby the Company, in effect, might have the price benefits that would flow from being able to purchase directly from the mill [App’t Br. p. 9 l 1-5, CT 95 lines 23-26.] Accordingly, the Company caused to be formed the Friend Paper Company, which bought paper directly from Gilbert and sold it to the Company. The Friend Paper Company was not incorporated, and it appears to have had no formal beginning. It simply began to place with Gilbert orders for paper that the Company needed in its retail business. The Friend Paper Company never had any employees, and almost from its inception its “business” was conducted solely by Wilber, partly at his office in the headquarters of the Company with the clerical assistance of Company personnel, and partly at his home.<sup>1</sup>

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<sup>1</sup> There is only defendant’s unsupported testimony that Friend Paper Co., through which he claims to have acquired rights to the trademarks in this suit, was anything other than a buying front for H. A. Friend and Company.

The record, on the other hand, clearly shows that Friend Paper Co. had no separate existence. Defendant has admitted that Friend Paper Co. had no telephone listing in Zion, Illinois [Pretrial Conference Order, CT 452. l 1-2], that its only sales representative was Wilber Friend

“By the end of 1940, the two next oldest sons of Harley A. Friend had also become employees in their

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<sup>1</sup> (Continued)

[Defendant's answers to interrogatories 2/11/65, CT 1, 1 22-25], that it owned no warehousing facilities, converting equipment or packaging facilities [RT 38, 1 15-18; RT 42, 1 10-16; RT 464, 1 7-12] and that its only office was in defendant's home [RT 39 1 20-22]. Defendant has also admitted that almost all orders for paper were shipped direct from the mill to H. A. Friend and Company, and that H. A. Friend and Co. paid the freight on shipments [RT 41, 1 19-RT 42 1 6; RT 338, 1 12-19], that H. A. Friend and Co. made stationery for the Friend Paper Co. and paid some of its bills [RT 299, 1 10-17; X132; RT 269, 1 16-RT 270 1 4; X281, RT 271, 19-RT 274, 1 18], and defendant could not show how H. A. Friend and Co. had been reimbursed [RT 299, 1 21-RT 301, 1 7]. In addition, defendant could not show that Friend Paper Co. had any customers for papers bearing the trademarks at issue [RT 383, 120-RT 384, 1 20; RT 466, 1 13-23]. Although defendant asserted that the Friend Paper Co. had employees, he could not state any of their names [RT 38 1 25-RT 39 1 11]. The only name appearing in the record was “Earl Mix” which defendant admitted was a pseudonym for himself [X423, X424, X425, RT 521, 1 24-RT 522, 1 25]. Defendant also could not state that Friend Paper Co. had absorbed any price fluctuations, which would normally be done by a legitimate wholesaler [RT 40, 1 23-RT 41, 1 8].

William Friend, plaintiff's corporate secretary testified that Friend Paper Co. was only a buying front whose business was conducted by Wilber Friend in his office at H. A. Friend and Co. with the occasional help of other H. A. Friend employees, and that he had no knowledge of any office in Wilber's home or of any profits Wilber made on paper purchases [RT 529, 1 1-7, RT 536, 1 1-RT 538, 1 7]. In fact, William indicated in answer to a question on cross-examination by defendant's counsel that when he entered the business Wilber informed him that H. A. Friend and Co. had an advantage over its competitors because it could “buy direct” from paper mills [RT 535, 1 13-22].

father's business, and, on December 31, 1950, he gave to each of them, and to Wilber, partnership interests in the Company effective January 1, 1941. [CT 450 1 25-28] The partnership agreement [X12] that they all signed on that date provided that each active partner should devote full time to the partnership business, should ". . . be faithful to all of the other partners in all transactions relating to the firm," and should not ". . . engage in any business or activity which in any way does or may conflict with or operate to the detriment of the partnership business." The agreement further provided that Wilber should have the responsibility of the general management of the entire business, and he did continue to assume such responsibility as long as he remained a partner. Harley's youngest son, William, was made an active partner in 1946, following his return from military service.

"Prior to the time of the formation of the partnership, the Company had begun the practice of publicizing its stationery as being in "The Banner Line", the quoted words usually being displayed as superimposed on a drawing of a pennant or banner. Its stationery was also advertised as "Friend's Papers", and more particularly as "Friend's Typewriter Papers", "Friend's Legal Linen", and the like. The imprinting on its stationery boxes and wrappings and its promotional material emphasized the fact that the Company was located in Zion, Illinois, and had been in operation since 1908. These same practices continued after the formation of the partnership and right up to the present time.

"By 1948, although most of the Company's customers were law offices located in the central part of the United States, a scattering of customers had developed in almost all, if not all, of the states west of the Rocky Mountains. [RT 12, 13, 15, X156A, G, and H; Depositions of J. W. Kindall, Bellingham, Wash.



X238; Benita Olson, Bellingham, Wash. X239 Meyer, Olympia, Wash. X242; Wiseman, Olympia Wash. X243; Braucht, Merced, Calif. X262; Howard Yakima, Wash. X263]. Many of these customers were lawyers who had moved westward and wanted to continue to buy "Friend's Papers"; other had been referred to "Friend's" by satisfied purchasers. Such contacts usually were renewed or established by mail; the Company carefully maintained and serviced them all; and in most instances the letters in response to inquiries and orders for merchandise were personally dictated and signed by Wilber. [X's 132-138, X's 208-229, X 311, RT 125; X's 315, 312, 359, 360, RT 130-131; X 316, RT 132; X 399, RT 133; X 401, RT 133-134; X 394, RT 134-135; X 389, RT 135-136]

"By about 1948, the Company had compiled addressograph plates that included the names and addresses of more than 1,500 lawyers and law firms located in the western states, and it sent to all of them at least one promotional brochure. [X's 13, 75] It was the active intention of the Company to attract as rapidly as practicable and to hold customers throughout the area between Illinois and the west coast of the United States. [RT 280, l 16-RT 281 l 10; RT 275, l 10-RT 278, l 3]

"In the latter part of 1948, for reasons that are not important to this decision and will not be discussed, Wilber withdrew from, or was removed from, the Company, and his capital interest therein, including goodwill, was purchased by his father. (Exh. 14a-e) The partnership was dissolved on December 31, 1948, and a new partnership was thereupon formed by Harley and his three remaining sons, which continued the business of the Company under the same name. [X 15] The plaintiff Corporation was formed in 1961 to become the successor to the Company and has operated the business ever since. [RT 12, L 19] (The plaintiff and the Company will hereinafter be referred to as the plaintiff.)

In the early spring of 1949, Wilber announced to his father and brothers the intention of moving to Pasadena, California, and engaging in the business of buying and selling paper at wholesale under the name of Friend Paper Company. His former partners expressed no objection to this, [Richard Friend's deposition, X BH, p 52 L 11-22, p 54 L 14-p 55 L 8, p 55 L 22-24, RT 449-450, RT 545 l 6-8] they ceased using that name for the operation through which they bought paper from the mills; and they began performing these transactions under the name, Friend Paper Products Company."

**IV. THE DISTRICT COURT FOUND, IN CONNECTION WITH THE PRIMARY CAUSE OF ACTION FOR COMMON LAW UNFAIR COMPETITION, THAT DEFENDANT IMITATED PLAINTIFF'S TRADE-NAME IN THE RETAIL PAPER AND STATIONERY BUSINESS AND FOLLOWED A COURSE OF CONDUCT CALCULATED TO CONFUSE AND DECEIVE CUSTOMERS AND TO TRADE ON PLAINTIFF'S GOODWILL.**

These activities were described by the court as follows:

"Wilber did move to Pasadena, and he went into the stationery business in 1950. But his principal activity was not that of a wholesaler of paper; instead, he engaged in precisely the same type of retail operation that the plaintiff had been conducting in Zion for so many years. He did not adopt completely the name of his father's partnership, namely H. A. Friend and Company; he simply left off the "H. A.", and called his business "Friend and Company". (Wilber later incorporated his business, and such corporation is made a defendant in this action. He and it will sometimes hereinafter be referred to as the defendants.)

"In 1955, Wilber published and began to distribute a large stiff-covered catalogue, on the cover of which appeared in large letters the words, "Friend's Quality Papers". [X84—Copies of the first several pages are reproduced in Appendix I to this brief at pages 2a-7a] At the head of the first inside page is the word "Friend's" in relatively very large type. At the bottom of the page is the assertion that the catalogue is presented by the *Western Division* of Friend and Company. The following page is headed by a map of the United States. An asterisk is placed thereon at about the location of Zion, Illinois, and is identified as "General Offices". The western half of the continent is shaded, and a star appears at the location of Pasadena, California, with the explanation "Shaded area served from Western Division Pasadena, California." The following text states that "The Friend organization has served the legal profession nationwide with quality products for fifty years. We were the first concern in the United States selling exclusively to attorneys." Farther down the page is the assertion that Friend and Company has been "—selling by direct mail and through representatives since 1908 . . .", and on the next page is a picture of Wilber with the statement that he has been "manager of the Western Division in Pasadena, California since 1949.

"The catalogue also advertises stationery known as Barrister Bond, Friends Bond, and Banner Bond, which are the same trademarks and watermarks that the plaintiff has been using since long before Wilber left Illinois.

"The publication just described asserts that it is "Catalog No. 47" (1908 plus 47 equals 1955, the year of its publication). About 1,000 copies of that catalogue were distributed during the next several years. In 1964, Catalog No. 47 was superseded by a new catalogue which, as might be expected, was designated

as "Catalog No. 56".<sup>2</sup> Its format is substantially the same as No. 47, except that it expands a bit upon the earlier misrepresentations." [X85]

"It is evident from the foregoing description of the catalogues, as well as from other evidence at the trial, that the catalogues were carefully and fraudulently designed to convey the impression that the Pasadena business was a division of H. A. Friend and Company of Zion, Illinois. [Gregg dep. X 245, pp. 6, 7]. Wilber's protestations to the contrary in his testimony were simply unbelievable and served only to give further emphasis to this obvious conclusion. For example, in response to an inquiry as to the justification for the reference, in the 1955 catalogue, to his "General Offices" as being in Illinois, he made the amazing response that his fifteen year old son lived in Zion in that year and there received mail addressed to the defendants' business.<sup>3</sup> [RT 54, 1 5, RT 55, 1 20] He justified the similar reference to "General Offices" in the 1964 catalogue by saying that, although by that time his son was no longer in Zion, he had a Post Office box in that city."

The defendant's preposterous stories and the finding that Wilber Friend's (defendant's only witness at the

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<sup>2</sup> This is an example of the kind of testimony which Judge Gray later in this opinion characterized as simply unbelievable. Defendant testified first that the number 47 was chosen arbitrarily for the 1955 catalog and it was merely a coincidence that 1908 plus 47 equals 1955. [RT 53 lines 11-21]. When faced with the further coincidence that the number of the 1964 catalog was 56 defendant asserted that it was designed to have 56 pages and samples. [RT 84, line 17-RT 85, line 13]

<sup>3</sup> Again when defendant appeared in his own behalf he asserted upon cross examination that his son took care of the Zion "office" from 1949 until 1956 or 1957, and at the time the son took over what he called his "main base of operations" he was only 9 years old [RT 469, 1 20, RT 470, 1 10]



trial) testimony was not worthy of belief is buttressed by the facts surrounding the history of this litigation. Before the action was brought in California, Plaintiff filed an action on the same grounds in the U. S. District Court for the Northern District of Illinois, serving defendant pursuant to the Illinois "long arm" statute. Defendant promptly moved to dismiss for lack of personal jurisdiction and improper venue, supported by an affidavit of Wilber Friend stating that none of the defendants *did any business or had any place of business in Illinois*—nor did defendants ever have any place of business other than in Pasadena, California. (TR 160, 161; Exh 32) The District Court in Chicago, based on defendant's statements of fact, sustained its motions. Yet, in spite of this clear and unequivocal state of facts defendant persists in its contention that it has a right to associate its business with Zion, Illinois and that it has a right to say its Pasadena establishment is a division of another company. (Def's Brief p. 34, Assignment of Error #19 p 82.)

Defendant's misrepresentations and unfair competition with respect to Plaintiff's tradename were not confined to its catalogs and price lists. (X's 84, 85, 86, 87) Judge Gray's Memorandum went on to state:

"The record reveals other proof which shows beyond doubt that Wilber sought regularly to convey and cultivate the false impression that appears so vividly in his catalogues. Between 1951 and 1953 he sent out a circular letter to law offices in the western states including many customers of the plaintiff, in which he announced the opening of a Western Division and urged that future orders be forwarded to Pasadena where they could be expedited and result in a saving in freight charges, in comparison with the "east" impliedly Zion [RT 219, l 15, 230 Jahnke dep. 2

249, p. 5, 6; Hughes depn. X 235, p. 3; Newton dep. X 237, p. 3] In his correspondence and in his personal contacts with prospective customers, whenever any inquiry arose concerning the relationship between the Friend organization in Zion and his Pasadena operation, he actively implied or, at the very least allowed the inference, that they were one and the same. [RT 218, l 12; 228, l 15, 228; Gurtler depn. p 5; Augustine depn. X 249, p 6; Leder depn. X 250, p 6] For example, in one instance he responded to a letter of inquiry from an obviously confused former customer of the plaintiff, by assuring him that 'We will get your dies from our Zion plant.'"

The last incident relates to the testimony of Joan Warmington, a secretary of the law offices of Davis and Oppenstein of Tucson, Arizona. RT 193, Exh 240. This firm was, in May 1963, purchasing paper and stationery from both plaintiff and defendant. Miss Warmington wrote defendant ordering stationery, stating (RT 196);

"The letterhead stationery should be of the same style as that shown above, and the envelope should be of a quality paper that will match the letterheads" (Defendant filled this order with Barrister Bond letterhead and envelopes, the former being 100% and the latter 25% cotton fiber content papers, RT 117)

Miss Warmington's letter went on to ask defendant for quotation on business cards which theretofore had been supplied by plaintiff. Wilber Friend answered the inquiry and quoted a price for the business cards and added that there would be a \$10.00 additional charge for making an engraving die for the cards. RT 106 Miss Warmington responded to defendant's letter (RT 107):

"In connection with the business cards, after checking further with Mr. Davis, I have discovered that

these cards were originally ordered from the part of your organization which is located in Zion, Illinois. It would appear to me that the simplest way of handling this matter would be for you to obtain the die from Zion, change the phone number thereon and make the cards. However, if you feel it would be easier for everyone concerned for Mr. Davis to order the cards directly from Zion, please let me know."

Wilber Friend replied to Miss Warmington by letter dated May 18, 1963 [Ex 207], saying:

"Thanks very much for your letter of the 16th which helps us a lot. We will obtain the die from our Zion plant immediately as this will work nicely for your order on the business cards."

Wilber Friend knew the die was in the possession of Plaintiff in Zion, Illinois and never asked for it (TR 111.) He deliberately and maliciously mislead an obviously confused customer of plaintiff, a common practice by which Wilber took away customers of plaintiff. He followed his usual practice of making up a new die at his expense and the customer never knew what happened. (RT 151) This occurrence was only three months prior to Plaintiff's letter objecting to Defendant's unfair competition and infringement in August 1963 (RT 159, 160) and eight months prior to the time Plaintiff filed the action in Chicago.

This is not to say that misleading plaintiff's customers was something of recent origin. The record has clearcut evidence of equally heinous conduct throughout the period defendant was in business in California. The record shows an example of Wilber's fraudulent misrepresentation in 1951, when he successfully stole a customer of plaintiff, Mr. J. H. Jahnke, who had purchased his stationery from

plaintiff since the 1920's in Centralia, Washington. Wilber had corresponded with this customer while he was with H. A. Friend and Company. (RT 147) Defendant sent this customer the announcement referred to above in the court's decision announcing opening of "a Pasadena office" (Jahnke depn p5), and other literature including statements such as "our 43 years of selling exclusively to attorneys" (when defendant had been in business only about one year), "Serving the Legal Profession in every State since 1908" (TR 147), in addition to the continuous use of "Western Division" and "Since 1908." The exhibits attached to the Jahnke deposition included a letterhead sample, with defendant's prices and product information printed on it, and the letterhead was that of O'Leary, Meyer and O'Leary of Olympia, Washington, who had purchased their letterhead and stationery exclusively from plaintiff since 1932 (E. L. Meyer and Margaret Wiseman Depns, Exh 242, p 4, 5, TR 193; Exh 243 p 6 TR 194.) Wilber Friend did not confine his misrepresentations to his printed promotional materials. When he was trying to woo Mr. Jahnke from plaintiff, in a letter dated January 23, 1954 (TR 148) he stated "We now have your engraving die on file at this location. In the event of an order, we can supply your stationery needs from Pasadena and thus save you on shipping costs. Our rates on most items are a little less than from the east." As might be expected, defendant never obtained the die from H. A. Friend and Company or anyone else in the "East" but had a new die made up in Pasadena. (TR 151)

Wilber Friend's "I'll get your die from Zion" pitch was not confined to the mails. In 1956 he obtained the business of what, until Wilber's sales call, was a perfectly satisfied customer of H. A. Friend and Co. This customer, Albert



Ussery, a lawyer from Albuquerque, New Mexico, testified in his deposition (P 10, X 254)

“Well, my impression was, as it is now refreshed by reading this letter, that Mr. W. H. Friend secured the die, which had previously been utilized in the preparation of my stationery by the Zion Illinois plant. He says specifically that he now has the die on hand, and I just took that to mean that he must have written and secured it.”

The state of mind of plaintiff's customers after one of Wilber Friend's Sales calls may be illustrated by the testimony of Mrs. Muriel Leder who purchased stationery for the Albuquerque law firm of Modrall, Seymour, Sperling, Roehl and Harris (Depn, P6; Exh 250 TR 196)

Q. Have you heard of Friend and Company of Pasadena, California?

A. Yes.

Q. How did you come to become acquainted with Friend and Company of Pasadena?

A. Well, I recall one day a gentleman coming in and representing himself as sales personnel of some type or another from Pasadena, and that indicated that this was perhaps a new branch or probably a new branch of Friend of Zion, Illinois, I believe it is. Isn't it?

Mrs. Leder went on to testify that she ordered only once from defendant, but was dissatisfied with defendant's product and because of this dissatisfaction, never did business with either defendant or plaintiff again.

Further details on Wilber Friend's sales pitch, including how Wilber uses Friend Paper Company as a part of his deception, is found in the trial testimony of Mr. Dale Walker (RT 241):

Q. Have you ever heard of Friend and Company?

A. I have heard of Friend and Company, yes.

Q. How did you come to hear of Friend and Company?

A. Specifically, a gentleman appeared in our office in Albuquerque and informed me and my secretary that Friend Paper Company that we did business with had formed or had established a Western Division plant and it might save us transportation costs if we did business with them.

Q. When was this?

A. Well, I can't honestly recall now but it was around 1958.

Q. Were you at that time doing business with H. A. Friend and Company in Zion, Illinois?

A. Yes.

[RT 242, 243] Q. Did you, after this gentleman called on you, begin doing business with the Pasadena company?

A. Yes, sir, we did.

Q. When he called on you, did he give you any other, shall we say sales pitch?

A. Well, he really didn't have to. We have had a very compatible relationship with Friend, and I had had the opportunity to recommend their paper to several other attorneys, and they were satisfied, which made me feel good.

The man that called at my office was a very courteous individual. We went through his folder. I found several pieces of merchandise that they had that we should have been buying and hadn't, and that was a pleasant discovery too.

So he really didn't have to sales-pitch me, in the vernacular.

[RT 244] Q. Did it subsequently come to your attention that there was no connection between the first Friend that you had done business with and the one represented by the gentleman from Pasadena?

A. Yes, it did.

Q. How did you come to acquire that knowledge?

A. Well, I can't recall the date, but I am sure it was within a two or three-year period another gentleman appeared in our office and informed me that they were somewhat disappointed in the fact that we had stopped buying paper from Friend, which rather astounded me, and I then learned of the lack of connection between the Zion Friend and the Pasadena Friend.

Q. Did you have any personal reaction or feeling as to that?

A. Well, yes, I did. I felt I had been somewhat deceived—more than somewhat deceived.

In response to the Court's questions this point was summed up

The Court: Did you at that time draw any distinction between H. A. Friend and Company, Friend Paper Company or Friend and Company?

The Witness: No, your Honor. There was no distinction drawn other than the fact that the company that we did business with now had a Western division, and I can recall that quite vividly.

The Court: Do you recall at that time that you were dealing with a company at Zion, Illinois whose firm name had the word "Friend" in it somehow, is that right?

The Witness: Yes.

The Court: Is it true that any mention of Friend in connection with paper meant to you the Zion, Illinois company?

The Witness: Yes, your Honor.

Wilber Friend's first employee was Mr. Melvin Poole, who worked for him approximately twelve years assisting in running the business, and making calls on customers and prospective customers. Mr. Poole testified (TR 217) that 20% to 40% of the prospective customers he called

on were H. A. Friend & Co. customers. He stated that when someone asked what the business connection was between plaintiff and defendant his answer was: "(I) shrugged it off and said 'one and the same.'" His purpose in making this statement he knew was false was to gain business. (TR 228, 229.) He went on to testify that Wilber Friend "suggested" that he tell people plaintiff and defendant were "one and the same" (TR 218, 219). In spite of this, appellant asserts in its brief, p. 50:

"There is no evidence that he (defendant) ever told or instructed anyone else to tell, a customer that his business was connected with plaintiff."

Appellant apparently overlooks the testimony of the aforementioned witnesses and there are other similar misrepresentations found throughout the record.

Numerous other witnesses testified that plaintiff's customers were contacted by defendant, either by mail or by personal visit of Wilber Friend, and discontinued doing business with plaintiff and began doing business with defendant because of the misleading representations of Defendant and confusing similarity of the tradenames and trademarks. (Earle W. Zinn, Seattle, Wash., Exh 234 RT191; Darlene Pinkston, Wenatchee, Washington, Exh 236 RT192; Joseph L. Hughes, Wenatchee, Wash., Exh 235 RT191; Arthur M. Newton, Everett, Wash., Exh 237 RT192; James R. Gregg, Vancouver, Wash., Exh 245 RT194; Harold E. Whitney, Phoenix, Ariz., Exh 246 RT194; Albert W. Gurtler, Mesa, Ariz., Exh 247 RT195; Thomas J. Davis, Tucson, Ariz., Exh 248 RT195; John L. Augustin, Tucson, Ariz., Exs 249 RT196; Richard M. Krannawitter, Albuquerque, N. Mex., Exh 251 RT195; Erwin S. Moise, Santa Fe, N. Mex., Exh 411 RT197; Leder, Albuquerque, N. Mex., Exh 250 RT196; Sutin,

Albuquerque, N. Mex., Exh 253 RT196; Cunningham Centralia, Wash., Exh 264 RT208; Roick, Escondido Calif., Exh 265 RT209; Fowler, Salt Lake City, Utah Exh 267; RT209; James R. Wilson, Daytona Beach Florida, Exh 268 RT209.) All of these witnesses were customers who purchased from Plaintiff before they purchased from defendant except Mr. Wilson, of Daytona Beach, Florida, and defendant admitted his business was "probably" obtained by defendant as a result of a letter from Mr. Wilson to plaintiff which got into defendant's Post Office Box in Zion, Illinois. (RT 90)

From the foregoing evidence the District Court concluded: on that part of the case pertaining to Plaintiff's cause of action for common law unfair competition:

"In summary, this Court finds that Wilber, from the beginning of his Pasadena venture, tried, in every way he knew how, to capture for himself the goodwill that his father's company (the plaintiff) had developed among law offices in the western states. It is equally apparent that in this he was very successful. The many letters and depositions introduced into the record reveal that a substantial number of lawyers purchased their stationery from the defendants in the mistaken belief that they were dealing with the Western Division of the plaintiff.

"The trade name, Friend and Company, is very similar to that of H. A. Friend and Company, and the record shows clearly that confusion has resulted in the minds of customers and prospective customers throughout the western states. A court should be reluctant to limit a person in the use of his own name in his business. However, in the case at hand Wilber has been using the Friend name, not simply to identify his own business, but rather as a means of seeking wrongfully to identify his business with that of another."



Wilber Friend testified early in the trial (RT 49, 50) that he solicited business solely by personal calls and by mail, that is, he never advertised in magazines, newspapers or other types of media (RT 513 Pre Trial Conf. Order ¶17.) When asked “Q. Did you ever send samples to any H. A. Friend and Company customers? defendant replied “I never sent a sample to an H. A. Friend and Company customer, that I knew was a customer of H. A. Friend and Company. I wasn’t interested in their business.”

Later in the trial Wilber Friend testified (RT 442 L. 12) “I did not under any circumstances at any time tell anyone that I was connected with H. A. Friend and Company in a business way.

It is no surprise when comparing such statements with clear evidence that he tried in every way possible to take customers from plaintiff, that the District Court characterized Wilber Friend’s testimony as “unbelievable.”

**V. INFRINGEMENT BY DEFENDANT’S USE OF THE TRADEMARKS “FRIEND’S”, “BARRISTER BOND” AND “BANNER BOND,” THOUGH SEPARATE CAUSES OF ACTION, ARE PART OF DEFENDANT’S PLAN TO TRADE ON PLAINTIFF’S GOOD WILL AND TRADE ON PLAINTIFF’S REPUTATION.**

The District Court found, regarding defendant’s trademark violations

“As hereinabove noted, the plaintiff has been using various trademarks in connection with the business of selling stationery at retail ever since long prior to 1941. [RT 11, 12, 15.] Such use of the trademarks included their being affixed as watermarks upon the paper itself in the process of manufacture, through the use of “dandy rolls” in some mysterious manner that the paper mill operators understand.

“When the Friend Paper Company was formed the plaintiff purchased its requirements for paper bearing its various watermarks through Friend Paper Company. [RT 329] The reason for doing so was to obtain for the plaintiff the price benefits accorded a wholesaler, as is discussed earlier in this memorandum. [Appellant’s Br. p. 9 l 1-5; CT 95 lines 23-26.] It also has been mentioned herein that Wilber was in charge of the “business” of Friend Paper Company from the time that he was an employee of his father’s organization (the plaintiff). [RT 15, 310]

“Wilber now says that he *was* Friend Paper Company, that from the beginning it was his sole proprietorship, and that during the entire time that he was operating it in Zion he was doing so for his own account. He further testified that he even made a profit on the paper that Friend Paper Company purchased from the mill and resold at a larger price to his father’s company. [RT 301].<sup>4</sup> He contends that

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<sup>4</sup> The reason that Wilber was successful for so many years in concealing the profits which he made on paper purchases for the Plaintiff was that he managed the H. A. Friend business and handled all purchasing and payments for purchases. (RT 301, l 19-RT 302 l 7.) Wilber’s testimony clearly shows that Wilber never told his father or brothers of the profits since, if he had told them, he could positively state they did know [RT 301, l 15-RT 302].

Defendant Wilber Friend called as an adverse witness for the plaintiff testified that he was “in charge of the business all through the years at various times,” and “did everything that was necessary in the operation of the business”, referring to the period following 1934 while defendant was associated with H. A. Friend and Company. Defendant also testified that he at least on some occasions signed checks and handled the books. [RT 20, l. 9-RT 21, l. 23.] Later he testified that his duties included handling sales letters [RT 25, lines 11-6] and ordering and paying for paper [RT 37 lines 16-25]. He also testified that he had been solely responsible for

inasmuch as he, through Friend Paper Company, has been purchasing and selling paper that was marked or otherwise identified with the trademarks here concerned, they somehow have become his trademarks and he has a right to continue to use them. In fact, he has been using several of them in his Pasadena establishment.<sup>5</sup>

“The short answer to Wilber’s contention is that, whether he knew it or not, during the entire time that he was operating Friend Paper Company in Zion, he was doing so as a fiduciary representative, or a constructive trustee, of H. A. Friend and Company and its owner (the plaintiff).<sup>6</sup> One of the best

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<sup>4</sup> (Continued)

production of a catalog which H. A. Friend and Company produced in the mid 30’s and distributed to its customers in 1938 [RT 29, line 10-RT 30 line 15] and had a “great deal to do with” the production of a price list used by H. A. Friend and Company around 1948, [RT 30 line 20-RT 31 line 3] and which was mailed, using addressograph plates, throughout the Western states [RT 275, l 24-RT 277 l 21, X 75, X 13, X 152]. Further along in the trial defendant admitted assuming managerial duties as early as 1940. [RT 311, l 3-10]

<sup>5</sup> The company name, H. A. Friend & Company was used by plaintiff and its predecessors long prior to any activity of Friend Paper Company (RT 12, L 14, 19,) and the record shows usage of “Friend’s” as a trademark as early as May 20, 1931 (RT 262, l 2-RT 263, l 1, Exh. 282. Pre-Trial Conf Order ¶ 9 CT 450.)

Defendant has admitted that plaintiff had customers in the States of California, Oregon, Washington, Utah, Arizona and Montana before any activities on the part of defendants in California. The record shows substantial priority of use of its marks by plaintiff in these and other western states, RT 13; l 4-24, 343 L 14.

<sup>6</sup> The court found that the relationship of Wilber Friend as manager of H. A. Friend & Company prior to his leaving in 1949 was a fiduciary relationship, as a matter of law, arising out of his status as the managing partner



established principles of law is that a person who is dealing with a business as a partner, or in any other relationship of trust, may not take for himself any profit or advantage that he might obtain for the firm, without first making full disclosure to all of the owners of the firm and obtaining their full consent. Restatement Of Restitution § 190 et seq. (1937).

“The evidence clearly shows that Wilber made no disclosure to his father or his brothers that he was

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° (Continued)

of said partnership. The defendant was also bound by the 1941 partnership contract, which explicitly sets forth the terms of a fiduciary duty of the partners. Appellant in his brief, page 47, refers only to the part of that contract providing for partners to work full time, and states:

“It is well known that persons employed full-time habitually engage in some personal errands or business during a working day.”

The appellant completely ignores the clear expression in the partnership contract which was discussed at length by the court and defendant's counsel at the concluding portion of the trial (RT 585.) As stated in the District Court's memorandum:

“The partnership agreement that they all signed on that date provided that each active partner should devote full time to the partnership business, should \* \* \* be faithful to all the other partners in all transactions relating to the firm, and should not \* \* \* engage in any business or activity which in any way does or may conflict with or operate to the detriment of the partnership business.”

The agreement thereafter provided that Wilber should be the general manager of H. A. Friend & Company. Wilber testified he read and understood the agreement before he signed (RT 27 l 5-10) it, and it clearly bars Wilber from asserting adverse claims to the H. A. Friend & Co. trademarks and from making personal profits in the purchasing of paper for H. A. Friend & Company, all of which he did without informing his father or brothers. As a result of the clear obligations in the partnership contract, and as a result of the relationship of the partners of H. A. Friend & Company relied on and trusted Wilber.

using Friend Paper Company for his own benefit. [RT 301-302; RT 360; RT 529.] Their understanding, which Wilber carefully encouraged, was that he was operating Friend Paper Company as a part of his function as principal manager of H. A. Friend and Company, and that the former was being operated solely for the benefit of the latter.

“Under well established fiduciary principles, Wilber acquired no individual rights in or to any of the trademarks with which he was dealing while he was affiliated with H. A. Friend and Company. Insofar as the parties to this action are concerned, the entire rights in and to such trademarks remain in the plaintiff.

“One of such trademarks is “Friends”, which, as has been mentioned earlier in this memorandum, the plaintiff has been using for many years. In 1957, the plaintiff obtained from the United States Patent Office Registration No. 655,848 covering this trademark. Insofar as the defendants are concerned, the plaintiff owns the trademark and it is valid and subsisting. The defendants have been infringing the trademark such infringement has created actual confusion and the likelihood of further confusion,<sup>7</sup> the defendants will be permanently enjoined from further violations. 15 U.S.C. 1116; *Tisch Hotels, Inc. v. Americana Inn Inc.*, 350 F.2d 609 (7th Cir. 1965).

“The plaintiff also has been using for many years the trademark, “Banner”, and has filed with the Patent Office Trademark Application Serial No.

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<sup>7</sup> Not only did defendant employ the identical marks claimed by plaintiff, he even went so far as to employ the same style of lettering for the works, except as to Banner Bond. Cf. Pltfs. Catalogs, watermarks, (X 10, 32 with D's Catalog X 84, 85.) The confusion caused by this copying is shown in the testimony of Mr. Dale Walker. RT 243, 1 12-244 1 4].

206,253 for the purpose of registering this mark. The defendants have filed notice of opposition to such application, and the matter is being held in abeyance in the Patent Office pending the outcome of the litigation. For the reasons hereinabove mentioned the defendants have no right to the use of the word "Banner", in any form as a trademark; the defendants have been wrongfully infringing that trademark; such infringement has created actual confusion and the likelihood of further confusion; the defendants will be enjoined from further infringement and from further opposing the plaintiff's application for registration.

"The plaintiff has been using the trademark "Barrister Bond", ever since prior to 1926.<sup>9</sup> Trademark Registration No. 274,875 was issued to Gilbert in 1930 and was renewed for twenty years on September 9, 1950. Gilbert held the registration in trust for the plaintiff until January, 1965, and then formally assigned it to the plaintiff. The assignment was duly recorded in the Patent Office. RT 337.

"From the very outset of their stationery business in Pasadena, the defendants have advertised "Barrister Bond" stationery as being one of their prime items of merchandise. By so doing, they have infringed the plaintiff's valid and subsisting trademark. Such infringement has created actual confusion and the likelihood of further confusion; the defendants will be enjoined from further violations.

"In actuality, as the defendants well knew, they were not able to deliver to their customers any paper

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<sup>8</sup> The use of "Banner Bond" or "Banner Line" as trademarks by H. A. Friend & Company is admitted to go back to the 1920's. (RT 11 L 12-19; RT 14-25. Pre Trial Conf Order ¶ 6, 7 CT 449).

<sup>9</sup> Use of "Barrister Bond" as a trademark and watermark by plaintiff and its predecessors commenced long before Wilber came to work for his father full time in 1932, RT 15, ¶ 14-25.

bearing the "Barrister Bond" watermark, because Gilbert honored the exclusive right of the plaintiff to such trademark and would not sell paper containing it to the defendants. Accordingly, whenever a customer ordered "Barrister Bond" paper from the defendants, the latter would fill the order by shipping paper carrying the watermark, "Bar Bond", which Gilbert was willing to manufacture and supply to the defendants. In his testimony at the trial, Wilber's explanation of this practice was his assertion that "Bar" (even without the period) is simply an abbreviation of "Barrister". [RT 60 l 19-22, RT 302 l 8-RT 303 l 6.] This seemed a bit surprising, but the Court feels that, under all of the circumstances, it should accept such explanation. Accordingly, the defendants will also be enjoined from further use of the "abbreviation", namely, "Bar Bond".

**VI. DEFENDANT DELIVERED GRADES OF PAPER TO CUSTOMERS WHICH WERE INFERIOR TO THE GRADES LISTED IN DEFENDANT'S CATALOGS AND PRICE LISTS AND ORDERED BY CUSTOMERS. AS A RESULT, THE CUSTOMERS WERE CHEATED; DEFENDANT HAD AN APPARENT PRICE ADVANTAGE OVER PLAINTIFF, WHICH IT USED TO OBTAIN CUSTOMERS WHILE SELLING UNDER THE SAME MARKS; PLAINTIFF'S REPUTATION WAS SUBJECT TO ANY PREJUDICE ACCRUING AS A RESULT OF SALE OF SUCH GOODS; AND DEFENDANT SAVED LARGE SUMS OF MONEY IN PAPER COSTS.**

The Court's decision on this point began:

"From the time Wilber first opened his Pasadena business, and until after this litigation was commenced, he caused his corporation to advertise his "Barrister Bond" stationery as containing 100% cot-

ton fibre.<sup>10</sup> He also advertised his "Friend's Title Linen" as having 50% cotton fibre. [X 84, 85.] In actuality, about 80% of the envelopes that he delivered in response to orders for "Barrister Bond" had a cotton fibre content of 20%, and all but 5% of the "Title Linen" that he sold either contained only 25% cotton fibre, or was made of sulphite, which had no rag content whatever." [RT 223-225, RT 171-175].

The result of Defendant's misleading advertising is shown in testimony of Mr. Dale Walker. (RT 244 l 1-14)

Q. Was it your impression that the Barrister Bond envelopes were also 100 per cent?

A. I just naturally assumed they were. I know that we ordered them, let's put it that way.<sup>11</sup>

The court went on to describe the extent of the economic advantage defendant derived from the paper cheating:

"According to Wilber's own admission, the relative mill costs per pound of these types of paper are 100% cotton—60¢; 50% cotton—40¢; 25% cotton—30¢; and sulphite—26¢ and lower. [RT 181-182].

"An officer of Gilbert testified without contradiction that, in general, the usable longevity of paper is

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<sup>10</sup> Defendant admitted that his customers ordered by specifying Barrister Bond or Title Linen Bond to represent respectively 100% and 50% cotton fiber content papers rather than by reference to percentage of cotton fiber content. (Pretrial Conference Order, paragraph 23, Ct. 451; RT 116, 117; RT 514, 515.) Similarly defendant's invoices to its customers listed only the names "Barrister Bond" and "Title Linen" to identify the grade of paper—not the percentage of cotton fiber content. (RT 233 L 11).

<sup>11</sup> Many of the customers were motivated to shift from plaintiff to defendant because of defendant's apparent price advantage, Jahnke RT 149 L. 3, Ussery X 177 RT 159, RT 184 L 19-23).



measured in years in direct proportion to its rag content, e.g., 100% cotton fibre should last 100 years, 25% cotton fibre—25 years, etc. He also established that the higher the percentage of cotton fibre, the better is the quality of the paper with respect to folding, tearing, erasability, etc. [Schmerein deposition, defendant's X BK, pp. 7-8.]

"The plaintiff has contended in its pleading and at the trial that such false description by the defendants of their goods has made them liable to the plaintiff pursuant to 15 U.S.C. 1125(a)."<sup>12</sup>

"The Court agrees with the plaintiff, and holds that the foregoing constitutes another aspect of un-

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<sup>12</sup> Defendant has been able to lower his prices because of said savings and advertise that he has lower prices than his competitors or "the East", thereby inducing customers of plaintiff and of other competitors to buy from him. The record contains a complete list of all of defendant's paper purchases from Gilbert Paper Company, its major supplier, from 1955 to 1966. (Schmerein depn, X BK, p. 24-29, exhs. 19 and 20 through 29m.). It can be computed from these records that defendant purchased a variety of envelopes and flat typewriter papers of a lower grade than he advertised. For example, these records show that in this period Wilber Friend purchased over 600,000 lbs. of paper watermarked "Friend's Title Linen", which defendant advertised as 50% cotton fiber paper. The record shows that 98% of this paper was only 25% cotton fiber grade. From the finding of the Judge as to paper costs, it can be seen that on this item alone defendant saved \$.10 per lb. over what he would have had to pay for the goods of the grade he advertised. Thus, on this one item alone—title linen typing paper—he saved in paper costs over \$60,000.00, an amount substantially equal to the whole monetary judgment granted by the court below. In addition to the aforementioned "Title Linen" typing paper, defendant saved many times this amount by furnishing its customers 25% paper in its envelopes advertised as 100% Barrister Bond, and sulfite grade paper in its Title Linen envelopes which were advertised as 50% cotton fibre grade in defendant's catalogs and price lists. It would be a very conservative estimate to say

fair competition for which the defendants are liable to the plaintiff. The defendants clearly are in competition with the plaintiff in the western states, and anyone who, while purporting to sell merchandise that matches the quality of competing products, actually sells goods of much reduced quality and cost to him, gains an unfair advantage over his competitors.<sup>13</sup> Moreover, and of much greater concern to the plaintiff from the standpoint of damage, is the likelihood that in future years people who have bought stationery from the defendants will become aware of its poor quality and will quietly determine never again to purchase "Friend's" papers. Because of the manner in which the defendants have fraudulently linked their own operation with that of the plaintiff, it is impossible to determine the full extent to which the false descriptions herein concerned have damaged the plaintiff already and will cause further injury in the future.

'Although section 43(a) [15 U.S.C. 1125(a)] makes no reference to injunctive relief, it is within the general power of a court of equity to grant it.' 1 Callmann, *Unfair Competition Trademarks and Monopolies*, Section 18.2(b) (Third Edition 1967).

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<sup>12</sup> (Continued)

that the total judgment of \$65,000.00 awarded by Judge Gray to plaintiff, is considerably less than half of what defendant saved by his misrepresentation of paper quality completely apart from defendant's profits on the retail sale of paper under the trademarks of plaintiff.

<sup>13</sup> The testimony of the confusion witnesses herein, previously quoted or referred to, show a clear sales pattern used by defendant. Defendant's sales pitch was that he could furnish the stationery to his customers for lower prices than from "Friends" in the east because of cheaper freight rates. Since a major portion of defendant's paper was from Gilbert Paper Company, which is located in Wisconsin and also supplied plaintiff, defendant obviously could not undercut plaintiff on paper of equal grade and quality.

“The plaintiff is entitled to, and will be accorded, an injunction against further misrepresentations by the defendants concerning the quality of their merchandise. See *Chamberlain v. Columbia Pictures Corp.*, 186 F.2d 923, 924 (9th Cir. 1951).

## **USE OF THE NAME, FRIEND PAPER COMPANY**

“The record indicates that when Wilber announced his intention, in 1949, to engage in the *wholesale* paper business in California, none of his former partners raised any objection to his using the name, Friend Paper Company, in that type of operation.<sup>14</sup> They reasonably concluded that no inherent confusion of identity would result from such an arrangement, inasmuch as the plaintiff’s sales have regularly been exclusively at retail to the consumer.”

The court then held that Wilber Friend could continue using the name Friend Paper Company in the wholesale, not retail, paper business.

**VII. THE DOCTRINE OF LACHES DOES NOT APPLY IN THIS CASE BECAUSE PLAINTIFF TOOK TIMELY ACTION ONCE DEFENDANT’S ACTIVITIES WERE KNOWN TO ITS PARTICIPATING OFFICERS, BECAUSE DEFENDANT HAS BEEN ENGAGED IN DELIBERATE AND PLANNED UNFAIR COMPETITION AND TRADEMARK INFRINGEMENT, AND BECAUSE THERE HAS BEEN NO RELIANCE, DETRIMENT, OR CHANGE OF POSITIONS ON THE PART OF DEFENDANT.**

*On the issue of laches the court said,*

“The record shows that in April, 1957, Harley A. Friend was made aware that a law firm in Seattle

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<sup>14</sup> Richard Friend’s deposition, XBH p 52 L 11-22, p 54 L 14-55 L 8, p 55 L 22-24 received evidence RT 449 L 21-RT 450).

Wm. Friend, secretary of plaintiff, testified that he assumed that Wilber would go into the wholesale business in California (RT 545, l 6-8).



was "taken in" by Wilber's course of conduct in seeking to create the hereinabove described confusion concerning the relationships between the Zion and Pasadena companies.<sup>15</sup> However, he took no action

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<sup>15</sup> The court's reference was to an exchange of correspondence with the firm of Lycette, Diamond and Sylvester of Seattle, Washington which had been for many years, prior to February 1951, a customer of H. A. Friend & Company. After a routine sales follow up letter was written by H. A. Friend & Company, the Lycette firm, by Mr. Zinn, answered as follows (Zinn depn. exhibit 3) (TX 234):

We have your letter of March 29th in which you state that your file card on engraved stationery indicates that we have not purchased any stationery from you since February, 1951.

As I recall it, it was along about that time that we received a letter advising of the opening of an office at 55 West Green St., Pasadena, California, for the purpose of better enabling you to serve your west coast customers and suggesting that we enter our future orders through that office.

Since the Pasadena plant was opened we have been ordering all of our requirements from that plant.

In referring back to our files, I note that the name of the company in Pasadena is "Friend & Company" whereas your Zion firm is known as "H. A. Friend & Company". Perhaps we became confused in thinking the two companies were one and the same. Are we correct in assuming that the Pasadena firm is an affiliate of yours or a branch of your company? The letter was intercepted by Mr. H. A. Friend who was then inactive in the management of the business due to ill health and only briefly made appearances at the offices of H. A. Friend & Company (RT. 534 l 19-24). Mr. H. A. Friend wrote the following letter in response to the Lycette firm (Zinn depn. exh. 2). (The parts in italics are the parts omitted in appellant's partial quote of this letter on pages 24 and 25 of appellant's brief):

We are in receipt of your nice letter of the 3rd, and we are sorry to know any firm would follow such

with respect to the matter prior to his death two years later, nor did he inform his other sons, who were his partners, concerning it.<sup>16</sup> Perhaps such inaction stemmed from a father's natural reluctance to conclude the worst concerning his son, or from his hope that the incident reported to him had been an isolated one. In any event, the first knowledge that Richard, Howard or William had of Wilber's fraudulent conduct was in August, 1962, when William went to Albuquerque, New Mexico, on a sales pro-

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<sup>15</sup> (Continued)

a line of duplicity, however, several other customers of ours on the coast write us in this same manner.

*This boy is my oldest son and was connected with this business in Zion but now has no connection with H. A. FRIEND & COMPANY in any manner. In fact, I was compelled to expell him from this business because of his misconduct.*

We greatly appreciate your letter giving us this information and assure you, you will never get anything from this office but truth and honesty.

*We would be pleased to take care of your needs again if you so desire.*

<sup>16</sup> At the time Mr. Friend wrote this letter, he was a very sick man and his condition steadily deteriorated until he died two years later at the age of 74. This is shown by Wilber Friend's own testimony (RT 395, 1 9-396, 1 1) quoted from a letter to him from his father, H. A. Friend on December 26, 1954, several years before the above exchange of correspondence. The letter read:

"My dear boy Wilber:

Well, I feel like I can write some today. My nerves have quieted down and I do feel some improved. I received the letters you wrote to me in Kansas City. Lucey would read them to me, but I was so sick, I could not understand."

Later Wilber Friend was asked (TR 509, 1 12):

"Q. Was your father in ill health before he died, or did he die suddenly?

A. I believe he was in ill health all through the years with increasing severity."

motion trip and saw the defendants' catalogue in a lawyer's office." <sup>17</sup>

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<sup>16</sup> (Continued)

If H. A. Friend was in poor health as described in the December, 1954 letter quoted above, he was very ill indeed in the last two years of his life. William testified (RT 534 L 19):

"Q. Several years prior to his death in 1959, was your father active in the business?

A. Not too much. He was a diabetic, and he had a bad heart, and he would only come into the office and look over generally the mail in the morning and maybe come back in a little while in the afternoon."

<sup>17</sup> William Friend testified that the first knowledge which the present management of H. A. Friend & Company obtained regarding the activities of defendant came when the witness, William Friend, went on a trip west. He saw for the first time one of Wilber Friend's 1962 catalogs, and he talked to former customers of H. A. Friend & Company, who had been deceived and who were doing business with defendant. (RT 531 l 13) Prior to that time Plaintiff's present officers believed that defendant was solely in the *wholesale* paper business in Pasadena, California under the name Friend Paper Company. (RT 397, l 10-14, 545 l 6-546)

Defendant claims that some idea of what defendant was up to resulted when one of the brothers, Howard, visited defendant's establishment in 1956. Defendant contends that Howard Friend "must have seen" the name on the door, "Friend & Company, Wholesale Paper". However, defendant never took the testimony of Howard Friend in order to bolster its affirmative defense of "laches, acquiescence and estoppel", although defendant took testimony of other witnesses in plaintiff's offices in Zion, Illinois when Howard was present. William testified that Howard mentioned nothing of interest pertaining to Wilber's business. (RT 543, l 14-22, 546 l 14-24) Timely and vigorous action was taken in 1963 after the nature of defendant's retail activities were revealed to plaintiff.

“The plaintiff sent to the defendants a demand for discontinuance on August 28, 1963, and after considerable subsequent correspondence, the plaintiff caused a complaint to be filed in the United States District Court for the Eastern District of Illinois late in 1963 or early in 1964. Wilber thereupon persuaded that Court that neither he nor his company had been doing business in Illinois since 1949(!). The complaint was therefore dismissed, and the present action was filed promptly thereafter.”<sup>18</sup>

The record is very clear that Wilber Friend maintained his rights to use “Friend” as a trademark and watermark for paper from the beginning of his operations in California on the distorted and perverted reasoning advanced as defenses in this case and was undeterred by anything part of plaintiff. In a letter of June 13, 1952, after a question was raised by Gilbert as to Wilber’s right to use “Friend” as a trademark (RT499, exh. 420, L.18), defendant stated to Gilbert, (RT501 L.5) “We intend to continue using this terminology. We have no real objection to H. A. Friend & Company using it also.” At the trial, (RT501 L.8) Wilber Friend was asked:

“Were you at that time convinced that you had rights to use ‘Friend’ as a brand name?”

and his answer was:

“Yes.”

The aforementioned letter to Gilbert concluded with defendant’s affirmation of his position wherein he said:

“My name happens to be Friend, and I intend to continue it regardless of anyone else in the business of that same name.”

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<sup>18</sup> Defendant never knew of the correspondence with the Lycette firm or with anyone else until the Lycette firm’s letter was filed with deposition of Mr. Zinn some time after August, 1965 and could therefore not have relied on any of the statements nor changed its position in reliance on them.

Defendant went on to testify (RT501, l 19) referring to the above:

“A. Yes. I intended to continue using it for the reasons I stated.

Q. Whether or not anybody objected to it?

A. Well, I wasn't going to go off the name of Friend because somebody objected to it.”

Defendant's dogged but baseless determination to use and continue using “Friend” regardless of the action or inaction of others is shown by the above testimony. A similar determination with respect to Barrister Bond is shown by defendant's continued use even after Gilbert refused to go through with an assignment of that mark. (X 414-418) Defendant's conduct with respect to both of these marks clearly negates any claim of reliance on his part.

The refusal of Gilbert to sell “Barrister Bond” water-marked paper to defendant left only one conclusion in the mind of H. A. Friend & Company and Gilbert—that Wilber had, through misrepresentation, sought to acquire rights to “Barrister Bond” in order to force H. A. Friend to buy this paper from him, the misrepresentations had been discovered and Wilber's attempt frustrated. The whole skirmish ended with Wilber receiving nothing and H. A. Friend could readily have concluded that the matter had been settled, finally and successfully, from the standpoint of H. A. Friend & Company. (DX N 13)

In its brief, page 19, appellant refers to the fact that from the beginning Wilber Friend had a plan “to go into the retail stationery business”. The brief states:

“Wilber Friend, while continuing to operate the Friend Paper Company, carried out his *plan* in 1949 to start up a retail stationery business similar to



that of H. A. Friend & Company, on the west coast, that is, the 13 far western states plus western Texas, as he had previously informed his father." (emphasis supplied)

There is no support for nor does appellant's brief refer to any support for the latter statement about informing his father other than Wilber's testimony, which Judge Gray characterized as "unbelievable." As previously referred to, H. A. Friend called Wilber's actions with respect to obtaining business from H. A. Friend's customer Lycette, Diamond & Sylvester of Seattle, Washington, "duplicity" and lack of "truth and honesty". The record supports the inference that Wilber's "plan" to start up a retail business was done under the smoke screen of Friend Paper Company's wholesale operations, but it was, as stated in appellant's brief, a "Plan".

**VIII. THE FINDINGS BY THE DISTRICT COURT OF FRAUDULENT UNFAIR TRADE PRACTICES, WILLFUL TRADEMARK INFRINGEMENT, AND A CONSISTENT DESIGN BY DEFENDANT TO TRADE ON THE GOODWILL OF PLAINTIFF ARE ABUNDANTLY SUPPORTED BY THE RECORD, AND THERE IS NO CREDIBLE EVIDENCE TO DISPUTE THOSE FINDINGS.**

The record shows that plaintiff has used the company name, H. A. Friend & Company, since prior to 1920, and that defendant adopted the company name, Friend & Company, with full knowledge of plaintiff's prior usage and in direct competition with plaintiff. The record also shows that defendant called itself, "Western Division" when it had no place of business except in Pasadena, California; and that defendant made oral and written announcements to plaintiff's customers in the western states which indicated that plaintiff had opened a west

coast branch and that the customers should send future orders to the Pasadena office, to “expedite” orders and save on freight charges. The record shows further that defendant used the slogans “since 1908”, “serving the legal profession in every state since 1908”, “The Friend organization has served the legal profession nationwide with quality products for 50 years”, all of which slogans applied properly to plaintiff, but not to defendant; that defendant used maps in its catalogs which showed “general offices” at the place of business of plaintiff; and that defendant told customers who were confused about the relationship of plaintiff and defendant that defendant would “get your engraving die from our Zion office”; that defendant used identical trademarks and watermarks to plaintiff on identical goods with identical styles of lettering; and that defendant made numerous representations to customers which were shown by the undisputed testimony of over a dozen confusion witnesses, all intended to trade on plaintiff’s goodwill.

Defendant’s business in California was built on a planned program of continuous and systematic unfair trade practices, from the time defendant started business in California in the 1950’s through the time of the trial.

Defendant’s own counsel admitted, during the final arguments at the conclusion of the trial regarding defendant’s business activities in California; “I think the name and the literature creates confusion. I would not deny it.” (RT 593, L 21, 22).

Despite the clear showing of willful infringement and unfair competition by defendant, Wilber H. Friend, and despite the characterization of the testimony of defendant as “unbelievable” by the District Court, the essence of appellant’s brief is a challenge of the findings of the

District Court on the basis of this “unbelievable” testimony of defendant.

The trial court made its finding based, not on the unsatisfactory (RT 579 L 20, 21) testimony of Wilber Friend, but on testimony of William Friend, voluminous documentary evidence, such as the letters between Gilbert and the respective parties, on depositions of witnesses such as Schmerin and Ashton, which support the findings of the court and contradict the testimony of Wilber Friend and the arguments of appellant in its brief, which are based on Wilber Friend’s testimony. Wilber Friend contradicted himself; for example in early 1964 he filed an affidavit in the Chicago case supporting his motion to dismiss for lack of personal jurisdiction saying he (or defendant) had no place of business and conducted no business *in Illinois*. Throughout the trial he testified that he *had* a place of business in Illinois since that is the only way he could attempt to justify his use of “western division” and many other of his fraudulent acts.

This court has held that it does not sit to retry the factual issues *Bloom v. U.S.*, 1959, 272 F2d 215, 223; that the burden is on him who attacks a finding to show that it is clearly wrong *Grace Bros. v. C.I.R.*, 1949 173 F2d 170; and that the “clearly erroneous” rule applies even to inferences drawn from documents or undisputed facts, *Snider v. England*, 1967 374 F2d 717, 720, Cf. *Lungren v. Freeman*, 1962 307 F2d 104.

Appellant suggests [Br p 40] that some other standards apply—that “A finding of the District Court should be reversed and set aside where there is no substantial evidence to support it, or where it is clear that a mistake has been committed” citing *Lassiter v. Guy F. Atkinson Co.*, 176 F2d 984, 993. This case doesn’t quite say what appellant attributes to it. The opinion states (at p 993)



“If on the entire evidence, we are ‘left with a definite and firm conviction that a mistake has been committed’ it is our duty to reverse the finding.”

Appellant states also, on page 40 of his brief that a finding of a District Court should be reversed where “it is against the clear weight of the evidence” citing *Cleo Syrup Corp. v. Coca-Cola Co.*, 139 F2d 416, 417 (CA 8, 1943). Again the court’s decision reads somewhat different from appellant’s summary of what the court said. The decision in the *Cleo* case read (p. 417-418)

Whether the present dress or make-up of the trade name “Cleo Cola” renders that trade name so similar to the trademark “Coca-Cola” that the former deceives, or will probably deceive, purchasers and cause them to buy the product of the defendant in the belief that it is the product of the plaintiff, is a question of fact. The District Court, which was the trier of the facts, has determined that issue in favor of the plaintiff. This Court, upon review, will not retry issues of fact or substitute its judgment with respect to such issues for that of the trial court. (citing cases) The power of a trial court to decide doubtful issues of fact is not limited to deciding them correctly. (citing cases) In a non-jury case, this Court may not set aside a finding of fact of a trial court unless there is no substantial evidence to sustain it, unless it is against the clear weight of the evidence, or unless it was induced by an erroneous view of the law. (citing cases) \* \* \* In determining whether there is a sufficient evidentiary basis for the court’s findings of fact, we must take that view of the evidence and the inferences deducible therefrom which is most favorable to the plaintiff.

The “whole record” here supports the District Court’s decision. *Audio Fidelity Inc. v. High Fidelity Recordings, Inc.*, 9th Cir. 1960 283 F2d 551, 557, 558.

The interest of the law, as stated by the Trial Court and by this court on many occasions, is to protect legitimate competitors from fraud and unfair trade practices and to protect the purchasing public from deceit. Appellant's brief, on the other hand, is directed entirely at challenging plaintiff's "ownership" of certain "rights". As Professor Gobel stated in his article entitled "Where and What a Trademark Protects", 22 Ill. Law Review, 379, he puts "the cart before the horse." "If the plaintiff wins he has a property interest, but if he loses he does not have such an interest. If he gets judgment the court thereby establishes his right that the defendant shall not do the act complained of." While plaintiff's rights in the name H. A. Friend & Company and the business goodwill associated therewith, and in the trademarks "Friend's", "Barrister Bond" and "Banner" and the registrations for "Friend's", and "Barrister Bond" are clearly shown by the evidence, an independent answer to the contentions of defendant's brief is that in protecting competition and the public from fraud, a court will uphold the rights of a plaintiff. As the California Supreme Court stated in *American Philatelic Society v. Claibourne*, 3 Cal. 2d 289, 46 P. 2d 135, 140, (1935);

"It is to be borne in mind that the rules of unfair competition are based not alone upon the protection of a property right existing in the complainants, but also upon the right of the public to protection from fraud and deceit."

\* \* \* When a scheme is evolved which on its face violates the fundamental rules of honesty and fair dealing, a court of equity is not impotent to frustrate its consummation because the scheme is an original one. There is a maxim as old as law that there can be no right without a remedy and in search-

ing for a precise precedent, an equity court must not lose sight, not only of its power, but of its duty to arrive at a just solution of the problem”

Trademark and Unfair competition laws are designed to protect the public from confusion and deception, as well as to protect legitimate business. *Stork Restaurant Inc. v. Sahati*, 166 F.2d 348 at 363 (9 Cir. 1948). Any attempt by a defendant to trade on the name or business reputation of another, where confusion or deception of the public results or is likely to result, is unfair competition under California law. *California Civil Code*, Section 3369; *People v. National Research Co. of Cal.*, 133 USPQ 413 (Cal. Dist. Ct. of App. 1962); *Metro-Goldwyn-Mayer Inc. v. Lee*, 137 USPQ 573 (Cal. Ct. of App. 1963).

Defendant's own efforts to trade on the reputation of plaintiff is clear evidence that plaintiff's rights have been established, for copying of a trademark, trade name, or dress of goods of a prior user, constitutes proof:

(a) That the mark, name or dress identifies the prior user as the source of the goods to the buying public. *Audio Fidelity, Inc. v. High Fidelity Recordings, Inc.*, 283 F.2d 551, 127 USPQ 306 (9th Cir. 1960); and

(b) That the purchasers will be confused. *National Lead Co. v. Wolfe*, 223 F.2d 195, (9th Cir. 1955).

Thus, defendant's contention that plaintiff has no “rights” which can be protected by the District Court is refuted by defendant's own conduct and by the clear and abundant evidence of consumer confusion. Evidence of actual confusion, along with evidence of prior use, is proof that customers associate a mark or name with a

source of goods, that is, the existence of “secondary meaning.” *Little Tavern Shops v. Davis*, 116 F.2d 903 at 906, 48 USPQ 161 (4th Cir., 1941); *National Lead Co. v. Wolfe*, (9th Cir.) 223 F.2d 195, 105 USPQ 623. It is axiomatic that identification of plaintiff’s name as source of the goods must exist in the mind of the purchaser before confusion, that is, misidentification, can occur as a result of defendant’s activities.

**IX. WHERE DEFENDANT ENGAGED IN FALSE ADVERTISING AND SUBSTITUTION OF INFERIOR GOODS SUCH CONDUCT SHOULD BE ENJOINED AND DAMAGES AND PROFITS AWARDED UNDER 15 U.S.C. 1125(a) OR UNDER CALIFORNIA LAW OF UNFAIR COMPETITION.**

In *L’Aiglon Apparel v. Lana Lobell, Inc.*, 214 F.2d 649, 3 Cir., 1954), the court held that in 15 U.S.C. 1125(a) Congress had defined a “statutory civil wrong” creating liability for false representation of goods. See *Maternally Yours v. Your Maternity Shop*, 234 F.2d 538 (2 Cir., 1955); *Gold Seal Co. v. Weeks*, 129 F.Supp. 928 DDC 1955, aff’d per curiam sub. nom.; *S. C. Johnson & Son, Inc. v. Gold Seal Co.*, 230 F.2d 832, DC Cir., 1956; *Parkway Baking Co. v. Freihofers Baking Co.*, 255 F.2d 641, 3 Cir., 1958); *Federal-Mogul-Bower Bearings Inc. v. Azoff*, 313 F.2d 405, 136 USPQ 500 (6th Cir. 1963); *Glenn Advertising Publications Inc.*, 251 F.Supp. 889, 148 USPQ 645 (S.D. N.Y. 1966); *Mutation Mink Breeders v. Lou Neirenberg Corp.*, 23 F.R.D. 155, 120 USPQ 270 (S.D. N.Y. 1949).

On remand in the *L’Aiglon* case the District Court awarded damages in the amount of \$17,500 for the false representation under 15 U.S.C. 1125(a). Compare *Monanto v. Perfect Fit Prods.*, 349 F.2d 389, 146 USPQ 512.

Injunctive relief and a monetary award for false representation and false advertising may be predicated on the common law apart from the statute, *Restatement of Torts* section 761, *Hesse v. Grossman*, Cal. App. 313 P. 2d 628, 629 (1957), *McCord v. Plotnick*, 108 Cal. App. 2d 399, 239 P. 2d 32 (1951).

The appellant however, contends that there was no passing off in connection with its paper cheating and therefore that neither an injunction nor monetary award is permissible under the Lanham Act or the law of unfair competition. That this contention is erroneous is clearly demonstrated by the record and the findings of the district judge. However, even if there were no passing off, the award should be sustained.

It is true that this court, in dictum in *Chamberlain v. Columbia Pictures*, 186 F.2d 923 (9 Cir., 1951) stated passing off was necessary to invoke 15 USC 1125(a). However this court found in the *Chamberlain* case that plaintiff did not have exclusive rights which were the basis for her claim and was not in competition with defendant. Accordingly, the issue of passing off, sale of defendant's product as plaintiff's could not have arisen and therefore any statement referring to passing off was dicta.

The dicta in the *Chamberlain* case is inconsistent with this court's decision in the *Brooks Bros.* case 158 F.2d 796, 72 USPQ 66, affirming per curiam and adopting as its own the District Court's opinion, *Brooks Bros. v. Brooks Clothing of California, Inc.*, 60 F.Supp. 442, 65 USPQ 30 and the decision of the California Supreme Court in *American Philatelic Society v. Claiborne*, 3 Cal. 2d 289, 46 P.2d 135. The *Brooks* decision says 60 F.Supp. at 451 that proving passing off is *not* necessary in unfair competition cases, citing a U.S. Supreme Court case as prin



ciple authority for this proposition. In the *American Philatelic* case the court held that non-competitors of defendant had standing to bring an action to stop defendant from altering and selling spurious stamps, thus necessarily holding that proving passing off is not required in so-called "unfair competition" cases.

Since *Chamberlain*, other circuits, in fully reasoned opinions on the merits have rejected the passing off requirement, *Federal-Mogul-Bower Bearings v. Azoff*, 313 F.2d 405 (6 Cir., 1963); *L'Aiglon Apparel v. Lana Lobell, Inc.*, 214 F.2d 649, (3 Cir., 1954); *Gold Seal Co. v. Weeks*, 129 F.Supp. 928 (DCC 1955); affirmed per curiam, sub. nom. *S. C. Johnson & Sons, Inc. v. Gold Seal Co.*, 230 F.2d 332, (D.C. Cir., 1956); as have several District Courts: *Norwich Pharmica Co. v. Hofmann-La Roche, Inc.*, 180 F.Supp. 222, (D. N.J., 1960); *Smith-Victor Corp. v. Sylvania Electric Products, Inc.*, 242 F.Supp. 302, (N.D. Ill., 1965); *Mutation Mink Breeders Ass'n v. Lou Nierenberg Corp.*, 23 F.R.D. 155, (S.D. N.Y., 1959).

As Judge Learned Hand pointed out in *Ely-Norris Safe Co. v. Mosler Safe Co.*, 7 F2d 603, (2 Cir., 1925) at page 604,

"there is no part of the law which is more plastic than the law of unfair competition, and what was not reckoned an actionable wrong 25 years ago may have become such today."

In view of these developments, appellee respectfully submits that the dictum of the *Chamberlain* case should not be followed. The *Chamberlain* case does nothing but discourage honest competitors from bringing actions to stop fraud and deception.

**X. A COURT MAY DETERMINE THE AMOUNT OF DAMAGES BY REASONABLE APPROXIMATION FROM EVIDENCE IN THE RECORD ONCE THE FACT OF DAMAGE IS ESTABLISHED.**

The fact of damage resulting from all of defendant's unfair trade practices is clearly shown by the record. Defendant took customers away from plaintiff using plaintiff's trade made and trademarks and misrepresenting that he was a West Coast branch of plaintiff. He was aided in this by his being able to hold himself out as offering his goods at lower prices made possible by his substitution of inferior grades of paper.

Plaintiff need show only a reasonable approximation to support an award of damages. In *Universal Pictures Co. v. Harold Lloyd Corporation*, 162 F.2d 354 (CA 9, 1947) at page 368, a copyright case, the court stated:

"In *Story Parchment Co. v. Paterson Parchment Paper Co.*, 282 U.S. 555, 562, 563, 51 S.Ct. 248, 250, 75 L. Ed. 544, it is said: It is true that there was uncertainty as to the extent of the damage, but there was none as to the fact of damage \* \* \*. The rule which precludes the recovery of uncertain damages applies to such as are not the certain result of the wrong, not to those damages which are definitely attributable to the wrong and only uncertain in respect of their amount. \* \* \*. In such case, while the damages may not be determined by mere speculation or guess, it will be enough if the evidence shows the extent of the damages as a matter of just and reasonable inference, although the result by only approximate. The wrongdoer is not entitled to complain that they cannot be measured with the exactness and precision that would be possible if the case, which he alone is responsible for making, were otherwise.

See *Bigelow v. RKO Radio Pictures, Inc.*, 327 U.S. 251, 66 S. Ct. 574, 580, 90 L. Ed. 652, in which it is

said: The most elementary conceptions of justice and public policy require that the wrongdoer shall bear the risk of the uncertainty which his own wrong was created \* \* \*.

The constant tendency of the courts is to find some way in which damages can be awarded where a wrong has been done. Difficulty of ascertainment is no longer confused with right of recovery for a proven invasion of the plaintiff's rights." [Cases cited]

In *Eastman Kodak Company v. Southern Photo Materials Company*, 273 U.S. 359, the Supreme Court held at page 378:

"Damages are not rendered uncertain because they cannot be calculated with absolute exactness. It is sufficient if a reasonable basis of computation is afforded, although the result be only approximate. This, we think, was a correct statement of the applicable rules of law. Furthermore, a defendant whose wrongful conduct has rendered difficult the ascertainment of the precise amount is not entitled to complain that they cannot be measured with the same exactness and precision as would otherwise be possible."

The record here has ledger sheets and correspondence relating to orders of customers who bought from both plaintiff and, after being confused, from defendant, from which the court could readily estimate plaintiff's damages. See *Maier Brewing v. Fleischmann Distilling*, 390 F.2d 17.



**XI. THE DISTRICT COURT'S FINDING THAT THE  
EQUITABLE DOCTRINES OF LACHES, ACQUIESCENCE AND ESTOPPEL DO NOT PROTECT DEFENDANT FROM AN AWARD OF INJUNCTIVE RELIEF  
AND MONETARY RECOVERY CAN NOT BE CALLED  
A CLEAR ABUSE OF DISCRETION.**

In trademark and unfair competition suits, the defense of estoppel requires proof of actual knowledge by the plaintiff of the infringer's activities, deliberate silence as to these activities by the plaintiff, an absence of knowledge by the infringer of the right of the plaintiff, innocent reliance by the infringer on the silence of the plaintiff, and a prejudicial change of position by the infringer based on said innocent reliance. *Parker v. Sager*, 174 F.2d 657 at 660 (DC Cir. 1949); *National Lead Co. v. Wolfe*, 223 F.2d 195, 105 USPQ 462 (9th Cir. 1955). None of the elements of estoppel were proved by defendant or are present in this case.

Defendant's adoption of confusingly similar trademarks and trade names, with knowledge of plaintiff's prior use, defendant's intentional fraud and deliberate misrepresentation, and plaintiff's incontestable trademark registrations bar the defense of laches, for laches does not apply under these circumstances, especially in a case for injunctive relief. *Menendez v. Holt*, 120 U.S. 514 at 523; *Apple Growers Assn. v. Pelletti Fruit Co., Inc.*, 153 F.Supp. 948, 115 USPQ 171 (DC ND Cal. 1957); *Standard Oil Co. v. Standard Oil Co.*, 252 F.2d 65, 116 USPQ 176 (10th Cir. 1958); *General Motors Corp. v. Smith*, 138 USPQ 382 (DC SD Cal. 1963); *Brooks Bros. v. Brooks*, 60 F.Supp. 442, 65 USPQ 301 (DC SD Cal. 1945).

In addition, defendant's misrepresentations and deceit of the purchasing public bars the defense of laches in this case, for laches is not a defense, when the public

interest is involved. *Menendez v. Holt, supra, Scott Paper Co. v. Marcalus Co.*, 326 U.S. 249 at 257, 67 USPQ 193 at 197 (1945).

Although the law cited above clearly shows that there can be no laches in this case, as a matter of law, it should also be pointed out that the District Court found an absence of laches as a matter of fact. The court found that the present management of plaintiff did not know of defendant's infringing activities until the latter part of 1962, and that plaintiff wrote defendant promptly upon learning of defendant's activities and objected to the infringement (August, 1963), and that plaintiff filed suit in the latter part of 1963 or the early part of 1964 (The Chicago suit was filed in January, 1964). This action was commenced in June, 1964.

While appellant devotes a great deal of his brief to the question of laches, there can clearly be no laches, acquiescence or estoppel in regard to the subject matter of the second cause of action (66-470-WPG) relating to misrepresentation of the cotton fibre content of defendant's papers. The record is clear that the relative cotton fibre content in new paper cannot be determined by visual comparison or by means other than a laboratory test, and plaintiff had no reason to know of defendant's paper cheating prior to the filing of this action. (It is only as paper ages that cotton fiber content becomes apparent, for low-cotton paper discolors faster than high-cotton paper.)

This Court has held that laches is a question of fact, *Speed Corporation v. Webster*, (CA9, 1959), 262 F.2nd, 83. And this Court stated in *Whitman v. Walt Disney Productions, Inc.*, (CA9, 1958) 263 F.2d 229 at 231:

"mere passage of time cannot constitute laches, but if the passage of time can be shown to have lulled

defendant into a false sense of security, and the defendant acts in reliance thereon, laches may, in the discretion of this trial court, be found.”

The court therein referred to the leading decision in this Circuit, *Gillons v. Shell Co. of California*, (CA9, 1936) 86 F.2d 600, where it was stated at page 604 that:

“at the outset, it will be helpful that we place our inquiry into its proper setting. It must be borne in mind that the decision of the trial Court on the subject of laches will not be set aside unless it is palpably wrong.”

“In *The Kermit*, 76 F.(2d) 363, 367, certiorari denied, *Lamborn v. American Ship & Commerce Nav. Co.*, 296 U.S. 581, 582, 56 S.Ct. 93, 80 L.Ed. 411, we said: ‘As the decisions indicated, the question of laches is addressed to the sound discretion of the trial judge, and his decision will not be disturbed on appeal unless it is so clearly wrong as to amount to an abuse of discretion.’ See, also 21 C.J. 217-219.”

The trial court here found that there was no laches. Defendant’s own testimony showed that his father, who had received a letter from a deceived customer and thereby obtained some knowledge of part of defendant’s activities, was seriously ill and incapacitated. When the father died, two years later, whatever knowledge the father had died with him. Defendant contends that the partial knowledge of his ill father concerning defendant’s infringement or unfair competition requires a finding of laches in this case, because of the holding in the *Whitman* case, above. However, the *Whitman* case does not control where plaintiff had no effective knowledge because of ill health of the actions of defendant, and the language of the *Whitman* case implies support for the finding of Judge Grey herein. In *Whitman*, this Court stated as follows:

“In our instant case the delay was fourteen years; *no charge of fraud or deception on the part of appellees was made; there is no charge of inability to bring the suit because of insufficient knowledge* (to the contrary, the knowledge on which the third suit was based in 1953 is the same knowledge as appellant had in 1939); no point is made of lack of funds, or absence from the country or *poor health, or confinement in any institution.*

\* \* \*

“We agree with the trial judge that *Gillons v. Shell Co., supra*, establishes the rule that *the question of laches in such a case as this is a matter for the discretion, judicially exercised, of the trial court.* We affirm that while ‘mere’ delay may not constitute laches, unreasonable or unexplained delay well may. *Kemberly Corp. v. Hartley Pen Co., supra*, 237 F.2d at page 301.

We find no indication that the district court abused its discretion; and the judgment is affirmed.” (emphasis added)

The defense of laches is an equitable defense, which will not be sustained in cases of deliberate and intentional trademark infringement or unfair competition. In *National Lead Co. v. Wolf*, (CA9, 1955) 223 F.2d 195 this court disposed of the question by saying “In the light of the intentional and fraudulent use of appellant’s trade name, the defense here is a frivolous one.” The letter relied on by defendant to support its equitable defense of laches, acquiescence and estoppel, by its own terms negatives all three defenses. In it his father speaks of Wilber’s “misconduct” causing his dismissal from H. A. Friend and Company, and refers to Wilber’s “duplicity” and lack of “truth and honesty” In the same case of *National Lead Company v. Wolfe*, at page 203, this court re-

jected a claim that a letter written from one official of National Lead Company to another, tending to support Wolfe's defenses, would support the equitable defense of laches, or acquiescence, on the obvious ground that this was an intra-company communication not seen by defendant. The correspondence relied on by defendant was never known to the defendant until this action was brought, and plaintiff filed the letters as exhibits to the deposition of Mr. Earl Zinn. As in the *National Lead* case, "there was no reliance upon it by appellees", and it should serve as no basis for defendant's equitable defense of laches, acquiescence and estoppel.

Complete absence of any reliance by defendant on anything H. A. Friend & Co. or its officials did or didn't do is shown by Wilber Friend's testimony, quoted on pages 37-38 herein.

**XII. THE DISTRICT COURT PROPERLY AWARDED PARTIAL ATTORNEY'S FEES TO PLAINTIFF BECAUSE OF DEFENDANT'S WILLFUL AND CALCULATED ACTS OF UNFAIR COMPETITION DELIBERATELY DESIGNED TO TRADE ON PLAINTIFF'S GOODWILL AND TO DEFRAUD PURCHASERS.**

The District Court awarded \$30,000, attorney's fees, which was slightly less than half the actual attorney's fees and expenses incurred by plaintiff, (CT 454-459), citing *National Van Lines, Inc. v. Dean*, 237 F.2d 688, 111 USPQ 165 (9th Cir., 1956), in which this Court awarded attorney's fees for deliberate acts of unfair competition at common law. *National Van Lines* expressly ruled that it was unnecessary to decide issues of trademark infringement under the Lanham Act. Subsequently, in *Maier Brewing Co. v. Fleischmann Distilling Corp.*,



59 F.2d 156, 149 USPQ 89, this could be held in an en banc decision regarding a purely statutory trademark infringement action, (the unfair competition issues having been excised as a result of an earlier appeal in the same case, 14 F.2d 149, 136 USPQ 508) that attorney's fees are not authorized by the Lanham Act, because the Lanham Act dealt in detail with monetary relief for statutory trademark infringement and was silent as to attorney's fees.

This court in the *Maier* case, in the next to the last paragraph stated (149 USPQ 96)

"We hold that attorney's fees are not recoverable in trademark infringement cases under the Lanham Act, primarily because the Congress has not provided for them. We do not think that such cases are among the exceptional ones of which Mr. Justice Frankfurter spoke in *Sprague v. Ticonic Bank*, *supra*. We do not think that we should create an exception when Congress has legislated so fully, in the area, and has not provided for attorney's fees. We overrule *Wolfe*, to that extent, and limit *National Van Lines* to its actual holding, as to the correctness of which we express no opinion."

In the *Maier Brewing* case on attorney's fees, the court stated in footnote 7:

"*High Fidelity Recordings, Inc. v. Audio Fidelity, Inc.*, 9 Cir., 1962, 305 D.2d 86, 134 USPQ 93, relied primarily on *National Van Lines*. It was an action for unfair competition under California law. It was not a trademark case. We need not consider whether it correctly applied California law."

The Supreme Court in *Fleischmann Distilling Corp. v. Maier Brewing Co.*, 386 U.S. 714, affirmed this court by saying that attorney's fees are not provided for by

the Lanham Act and cannot be awarded in purely statutory trademark cases brought under the Lanham Act. It should be clearly noted, however, that neither the Supreme Court nor this Court was concerned with an unfair competition situation arising under common law or state statute. The Supreme Court stated in *Fleischman v. Maier Brewing* that attorney's fees may be awarded in appropriate cases under the general equity power of the courts.

Thus, *Fleischmann v. Maier Brewing* does not apply to trademark infringement causes of action arising under common law or to unfair competition causes of action arising under common law or state statute. Since this case involves both these causes of action, as well as separate causes of action arising under the Lanham Act, the decisions in *Fleischmann v. Maier Brewing* do not preclude attorney's fees here. See, generally, commentary on this court's decision, McCormick, "Trademarks—Successful Plaintiffs in Trademark Infringement Action Under the Lanham Act May Not Recover Attorney's Fees", 65 Mich. L. Rev. No. 3, January, 1967, 57 TM Rep. 343. On the contrary, the cases clearly show that attorney's fees are allowable in actions against reprehensible and heinous unfair competition which violate the common law and the statutes of California, as well as the Lanham Act, *National Van Lines, Inc. v. Dean* above; *Audio Fidelity, Inc. v. High Fidelity Recording, Inc.*, 305 F.2d 86, 134 USPQ 93 (9 Cir., 1962); *Singer Manufacturing Co. v. Redlich*, 109 F.Supp. 623, 96 USPQ 85 (DC SD Cal. 1952), see also *Hulbert Oil & Grease Co. v. Hulbert Oil & Grease Co.*, (CA 7, 1967) 371 F.2d 251, 152 USPQ 87, an Illinois unfair competition case where attorney's fees were affirmed despite a general rule against attorney's fees; *Monsanto v. Perfect F*

*Products*, 349 F.2d 389. It should be noted in this regard that the District Court was fully apprised of the holding of this court in *Fleischmann v. Maier Brewing* and was clearly aware of the distinction between causes of action arising under the Lanham Act only and causes of action involving violations of state statutes and common law regarding unfair competition. (RT 605-606)

Aside from the clear language in *Fleischmann v. Maier Brewing* that the holding should be limited to cases arising only under the Lanham Act, this position finds support in a recent decision of the Supreme Court of New Jersey in *Red Devil Tools v. Tip Top Brush Co., Inc.*, 157 USPQ 456, a case involving trademark infringement under the Lanham Act as well as violations of common law trademark rights and unfair trade practices. The court held that an award of attorney's fees is proper, where the defendants deliberately chose an identical mark on related goods for the purpose of benefiting from the plaintiff's established reputation.

Applying the rationale of *Monsanto Chemical Co. v. Perfect Fit Products*, 349 F.2d 389, 146 USPQ 512 (2 Cir., 1965, Cert. denied 383 U.S. 942, 16 L.Ed. 2d, 206, 148 USPQ 772, 1966) the court stated at page 462, that its ruling allowing attorney's fees \* \* \* is

“not precluded by anything in *Fleischmann v. Maier Brewing Co.*, *supra*, 386 U.S. 714, 18 L. Ed. 2d 475, 153 USPQ 432. \* \* \*. *Fleischmann* governs proceedings under the Lanham Act but has no relation to unfair trade practice cases under the common law.”

The *Monsanto* case which was cited in the *Red Devil Tools* opinion was also relied upon by this court in the latest *Fleischmann v. Maier Brewing* case regarding an accounting of profits: In the *Monsanto* case, the District



Court had awarded attorney's fees to plaintiff, the proprietor of the mark "Acrilan", by reason of defendant's use of the mark "Acrilan" on mattress pads falsely labeled "acrilan filled." The court stated, at p. 391, that the defendant's acts:

"constituted unfair competition and that it had acted 'willfully with full knowledge of plaintiff's rights and as a part of a pre-conceived plan to trade upon plaintiff's goodwill.'"

The Second Circuit Court of Appeals affirmed the award of attorney's fees and also allowed Monsanto \$1500 for legal expenses *on the appeal*, in addition to awarding an accounting of profits on the theory of restitution and unjust enrichment, (a theory which was later adopted by this court in the latest *Fleischmann v. Maier Brewing* case). This case is strikingly similar to the *Monsanto* case above, in that defendant here was furnishing his customers papers of a markedly lower grade than the papers were represented to be in defendant's catalogs and price lists. This case is far more aggravated than the *Maier* case where the parties were not in direct competition and as pointed out by this court in its decision on attorney's fees, the defendant even won in the initial decision of the trial court. Defendant here not only used the fact that his prices were (on their face) somewhat lower than plaintiff's, to obtain customers from plaintiff (and others), but he made enormous profits by selling these inferior grades of paper over a period of approximately 10 years, from 1956 through 1966, at prices which were higher than normal for the actual paper grades involved. In other words, defendant used his paper cheating to shave his prices below those of competitors and still sell at a higher-than-normal profit.

Even at the present time, defendant continues to sell the same grades of paper, and although he claims to

have blocked out the references to paper percentages in his price lists, the fact remains that thousands of catalogs and price lists containing the false statements as to paper grades are out in the hands of customers (X84, RT 222-223), and defendant does not claim they have been recalled. What is even more striking, if not shocking, is that on this appeal defendant claims the District Court erred in enjoining him from falsely advertising his papers. Assignment of error number 20 reads as follows:

“(The District Court erred) in enjoining defendants from selling stationery of different quality than advertised.”

Thus while defendants, in their brief at page 82, claim to have repented, they persist in their assertion that the injunction was improper. These facts clearly show that the actions of defendants are fraudulent in the extreme, and that attorney's fees are allowable in this case under the doctrine of the cases cited above.

There is an additional rationale for awarding attorney's fees in this particular case, based on the Supreme Court case *Sprague v. Ticonia National Bank*, 307 U.S. 161 (1939), discussed by both this court and the Supreme Court in the Maier decisions. The Supreme Court referred to the *Sprague* case as one of the exceptions to the general proposition that attorney's fees are not normally assessed against an unsuccessful litigant. After discussing situations where attorney's fees are awarded to one who is successful in establishing a fund, for the benefit of other litigants similarly situated, the court points out that the *Sprague* case involves an analogous exception. As the Supreme Court stated in the *Maier* case:

“*Sprague* itself involved a variation of the common fund situation where, although the plaintiff had not

in a technical sense sued for the benefit of other or to create a common fund, the stare decisis effect of the judgment obtained by the plaintiff has established as a matter of law, the right of a discernible class of persons to collect upon similar claims.”

Thus, the general equity power “to do equity in a particular situation” supports an award of attorney’s fee under circumstances wherein a successful suit by a plaintiff creates a clear benefit or potential benefit to others for the same reasons that underlay the common fund decisions. *Reconstruction Finance Corp. v. J. G. Menihan Corp.*, 312 U.S. 81, at 85; 48 USPQ 264, at 266 (1941); *Universal Oil Products v. Root Refining Co.*, 328 U.S. 823 (1946); *United States v. Equitable Life Assur. Soc’y of United States*, 384 U.S. 323 at 331 (1966).

Here the defendant has not only unjustly enriched himself by his paper cheating, but he has defrauded his customers. His customers are a clearly ascertainable group virtually all of whom are members of the legal profession. The decision of this case on the misrepresentations by defendants concerning paper quality is clearly a precedent on which defendant’s customers can rely to obtain restitution from defendants. Many of these customer’s purchases are relatively small, and would not justify litigation without the benefit of this adjudication. Furthermore, one of defendant’s customers, Maricopa County, Arizona which purchased paper for the state and county Judges and was misled by defendant’s misrepresentations, may be under a legal duty to bring an action for restitution against defendant, and would clearly benefit by the efforts of plaintiff herein. Competitors of defendant such as Stuart Cooper Company have likewise benefitted from the adjudication.

Finally, § 3294 of the California Civil Code provides for punitive damages over and above actual damages, in cases involving “oppression, fraud or malice express or implied.” (See Appendix II). Since the award of punitive damages under § 3294 is clearly discretionary with the trial judge, it is not improper for the judge to measure said damages by a portion of plaintiff’s attorney’s fees. *Singer v. Redlich*, 109 F.Supp. 623; 96 USPQ 85 (DC SD Cal. 1952)

Thus, where there is clear justification for an award of punitive damages under § 3294, as there is in this case of fraud and malicious unfair competition, an award of partial attorney’s fees should not be reversed simply because § 3294 was not cited by the Court in making the award.

### **XIII. ASSIGNMENTS OF ERROR ON PLAINTIFF’S CROSS APPEAL.**

The District Court erred:

- (1) In failing to grant plaintiff an accounting to take away the profits defendant made from the deliberate unfair trade practices.
- (2) In not enjoining defendants from all use of the name “Friend” in the retail paper trade and in any manner which would indicate source of origin to retail consumers of paper and stationery.

**XIV. DEFENDANTS WILL RETAIN FINANCIAL BENEFITS FROM THE DELIBERATE INFRINGEMENT AND UNFAIR COMPETITION WHICH COULD REACH SEVERAL HUNDRED THOUSAND DOLLARS IF DEFENDANTS' PROFITS ARE NOT AWARDED IN ADDITION TO THE AWARD OF COMPENSATORY DAMAGES FOR PLAINTIFF'S LOST SALES AND INJURY TO REPUTATION.**

Plaintiff has cross-appealed for an accounting of defendant's profits because the District Court limited the monetary award in this case to compensatory damages and attorney's fees, which failed to approach defendants' unjust enrichment obtained by means of its fraudulent and willful trademark infringement and unfair competition. The action of the District Court is directly contrary to the holding of this court in *Maier Brewing Co. v. Fleischmann*, 157 USPQ 76, 390 F. 2d 117. However, since this last *Maier* decision adopted new standards for awarding profits in cases of deliberate infringement, and Judge Gray's decision preceded this *Maier* decision and was made without its benefit, appellee has some reservation in saying Judge Gray was in "error". Nevertheless, the latest *Maier* decision is clearly applicable here and an accounting of defendant's profits is proper and should be awarded as requested by plaintiff in the Complaint. (CT 13 L 32) and at trial (CT 477, L 16-19)

In an affidavit of defendant, Wilber H. Friend, filed in support of a Motion to Dismiss in this case (CT 285 L. 13-15), the defendant said that the profits of Friend and Company (presumably after taxes) on the stationery product in question in one year were "substantially less than 10% of sales". This is not a precise figure, but one could conclude that defendant made profits somewhere in the range of 5% to 10% of gross sales, which is quite normal for



businesses of this type. Appendix 1 attached to appellant's brief shows a chart of defendant's sales. This chart shows, assuming 1967 sales equal to 1966, that defendant made sales of approximately 1.2 million dollars *during the pendency of this case* that is, 1964 through 1967 inclusive. Assuming that defendant's profits were 8% on sales during this time, the profits from these sales exceed \$100,000.00, *not* counting the savings on paper costs resulting from defendant's substituting inferior grades of paper.

Total sales going back from 1956, when defendant first began his substitution of inferior grades of paper, exceed 2.8 million, and profits, aside from savings on paper costs involving substitution of inferior goods, are well over 200,000.00. As previously pointed out, the defendant's savings on paper costs on only one of the four types of paper involved, (Friend Title Linen Watermark) were in excess of \$60,000 and the remaining savings on the other types could be computed from the present record, at least as to minimum amounts.

Failure to take away from defendant these financial benefits enable defendant to retain enormous profits from a deliberate and calculated plan of trademark infringement, which is contrary to the Lanham Act, *Maier v. Fleishmann*, 390 F. 2d 117, 157 U.S.P.Q. 76, (9 Cir. 1968); *Monsanto v. Perfect Fit*, 349 F. 2d 389, 146 U.S.P.Q. 512, (2 Cir., 1965) and also contrary to California law of unfair competition; *McCord v. Plotnick*, 108 Cal. App. 2d 92, 239 P. 2d 32, 92 U.S.P.Q. 151.

This court in the latest *Maier* case emphasized that the purpose of the Lanham Act was "making infringement and piracy unprofitable." (p. 121) The "restrictive approach" of some decisions, which "viewed an accounting of profits

as merely a method of compensating the trademark registrant for his lost or diverted sales", was rejected. (p. 121) The court said that to protect the public "from similar future acts of piracy by the same party \* \* \* the court must, as was recognized in the legislative history of the Act quoted above, make acts of trademark infringement or at the very least acts of deliberate trademark piracy unprofitable." (pp. 122-123)

In this case, defendants "knowingly, willfully and deliberately infringed". (p. 124) As this court pointed out in the next to the last paragraph of this *Maier* decision "The dollar amount of the recovery in an accounting for profits under the unjust enrichment rationale has no relation to the damages, if any, sustained by the plaintiff in the action." (p. 124)

Here allowing Wilber Friend and his company to retain large profits from his deliberate infringement and unfair trade practices is directly contrary to the principles stated in this court's latest *Maier* decision.

**XV. DEFENDANT SHOULD BE ENJOINED FROM ALL USE OF THE NAME "FRIEND" BECAUSE OF HIS FRAUDULENT USE OF THE NAME TO MISLEAD PURCHASERS AND AS A PART OF A PLAN TO TRADE ON PLAINTIFF'S REPUTATION.**

The sordid facts of this case make it plain that defendant should not be permitted to use the name "Friend" in the retail paper business or in any way which would come to the attention of retail customers, such as referring to his retail business as "a division of Friend Paper Company" [X 85] It should be noted that all ream size boxes sold at retail bear the name Friend Paper Company [XZ] or "Friend Paper Company, Western Division [XA]. It is clear from the record that customers simply do not dis-

guish one "Friend" company selling stationery from another. As long as this is the case the confusion and deception of customers can continue.

A person has no right to use his personal name as a part of a trade name or trademark where such use is in bad faith or is likely to confuse purchasers. *Max Factor Co. v. Factor*, 226 F. Supp. 120, 140 USPQ 166 (DC SD Cal. 1963); *Lane Bryant v. Maternity Lane*, 173 F. 2d 559 (9th Cir.); *Visser v. Macres*, 29 Cal. Reporter 367, 137 USPQ 492 (1963); *Everest & Jennings, Inc. v. E & J Mfg. Co.*, CA 9 263 F. 2d 254.

## REFERENCE TABLE

The following is a reference table which lists the assignments of error of defendant-appellant and then lists the portions of this brief wherein the facts or law relating to said assignments are discussed.

<u>Assignment of Error</u>	<u>Facts or Law Discussed</u>
	<u>Pages</u>
1.	7-9, 24.
2.	7-9, 24.
3.	23-29.
4.	9, 23-27.
5.	9, 27-28.
6.	28-29.
7.	28-29.
8.	9, 10.
9.	11, 33-39, 50-54.
10.	9, 23-29.
11.	11-23, 39-45.
12.	29-33, 45-47.
13.	11-23, 23-29, 48-50.
14.	11-23, 23-29, 54-61.



15.	29
16.	10, 23-29, 39-48.
17.	27-28.
18.	11-23, 39-47.
19.	6, 11-23, 39-47.
20.	29-33, 45-47.
21.	11-12, 33-39, 48-49.

### SUMMARY OF RELIEF SOUGHT

It is respectfully submitted that this Court should find

1. That the findings of fact of the District Court should be sustained.

2. That the monetary awards for damages and attorney's fees given by the District Court should be sustained.

3. That the injunctive relief given by the District Court should be sustained, except that the District Court should be instructed to enjoin all use by defendants-appellants of the name "Friend", or any name which is likely to cause confusion therewith, in connection with the sale of any paper at retail, and in any manner which may come to the attention of retail consumers of paper.

4. That the District Court should be instructed to award to plaintiff the profits which defendants made while using the trademarks of and a trade name deliberately adopted to trade on plaintiff's goodwill, and the profits which defendant made by fraudulently substituting low quality paper for the paper which they advertised, while trading on plaintiff's goodwill.

ated: at Chicago, Illinois

ugust 19, 1968

Respectfully submitted,

Alberts, Brezina & Lund

John C. Brezina

Joe C. Young

By .....

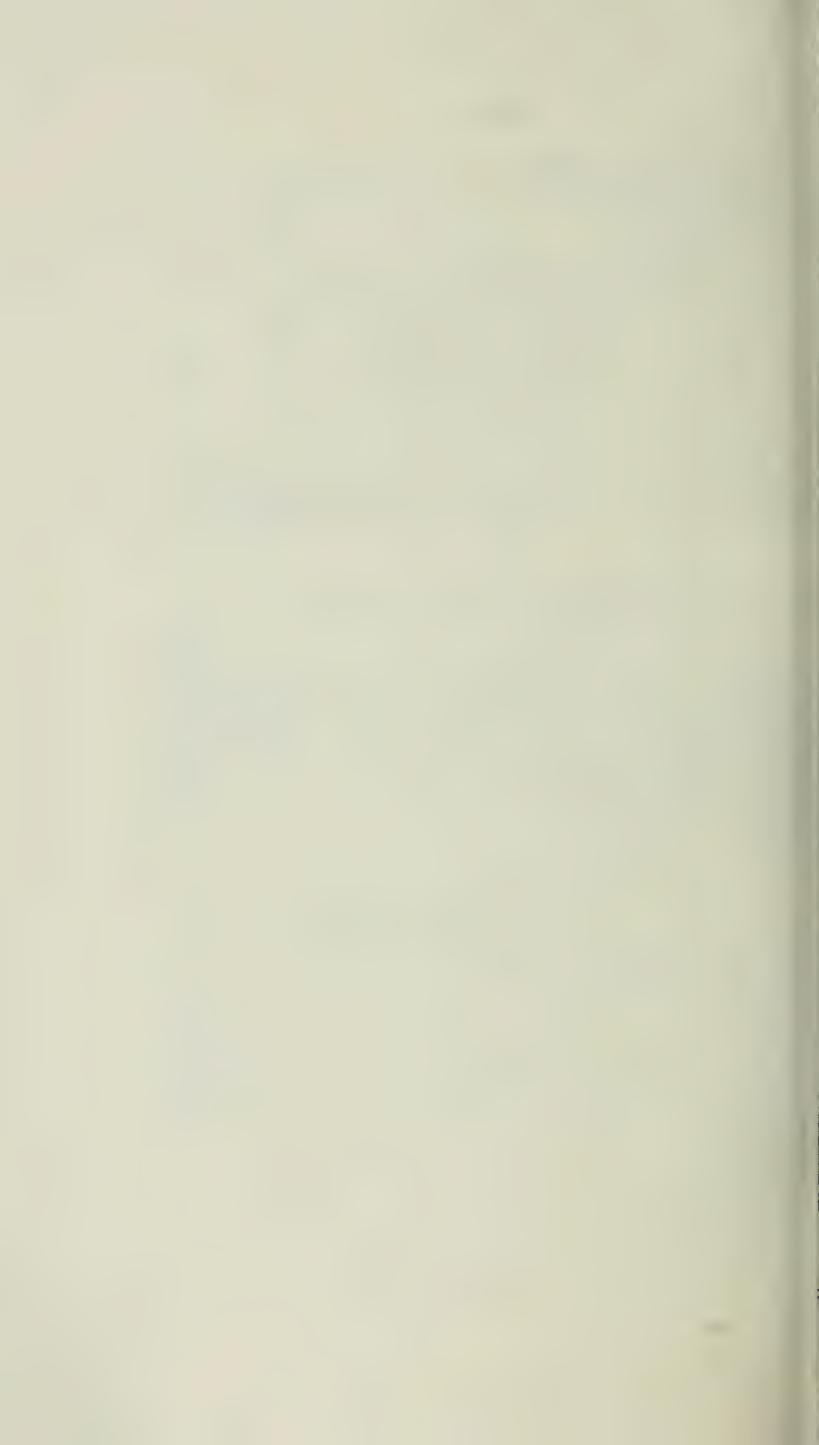
Attorneys for Plaintiff-Appellee

#### C E R T I F I C A T E

I certify that, in connection with the preparation of  
is brief, I have examined Rules 18, 19 and 39 of the  
nited States Court of Appeals for the Ninth Circuit,  
d that, in my opinion, the foregoing brief is in full com-  
iance with those rules.

.....

John C. Brezina



## APPENDIX I

# FRIEND'S

## LOG OF QUALITY SUPPLIES FOR THE LAW OFFICE

proud to present Catalog No. 47. We have endeavored to make it a clear and complete  
your Stationery requirements; and hope, for your convenience and constant use, that we  
ceeded in this effort.

### *General Information*

Prices in this Catalog are NET WHOLESALE and are not subject to further discounts. Due to the fact that we  
operate on a very narrow profit margin, and our raw materials and supplies are contracted for on an annual basis, it  
is necessary that all prices be subject to change without notice. Sales taxes to be added when applicable.

NET CASH within 30 days after date of our Invoice. We prefer to ship on open account to offices of recognized  
credit standing, satisfactory directory rating and to those furnishing suitable references. We reserve the right to  
charge 7 per cent interest on past due accounts. We do not ship C. O. D. to our customers; to do so, we feel, is  
disrespectful and discourteous.

Please be sure to send detailed information as to your requirements. Send samples whenever possible with nota-  
tions on each sheet as to quantity, grade, changes in copy, etc. It is especially important to give good copy and  
instructions on orders for engraved and printed stationery.

We are always glad to furnish additional samples. If you do not see a style or arrangement that fits your purposes  
we shall appreciate the opportunity to submit specimens. Please do not remove samples from catalog, in ordering  
it is necessary only to refer to sample by name or number.

F.O.B. Pasadena, California. We ship prepaid via the most economical method, and add charges to Invoice. Orders  
are filled promptly, usually in 7 to 9 days; except for Engraved Stationery where new Dies are necessary. It is  
suggested that orders be combined so as to take advantage of the low truck rates to practically every point in the  
eleven western states. Please do not return goods without first receiving our written permission.

**FRIEND** and Company • WESTERN DIVISION  
GREEN STREET Telephone SYcamore 3-1767 PASADENA 1, CALIFORNIA

CATALOG IS ISSUED TO YOU UNDER THIS SERIAL NUMBER, WITH THE UNDERSTANDING THAT ALL PRICES AND  
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WITH THE LEGAL PROFESSION ADDITIONAL COPIES OF THIS CATALOG ARE AVAILABLE AT \$6.00. POSTPAID

SHADED AREA SERVED FROM  
WESTERN DIVISION  
PASADENA, CALIFORNIA



\* GENERAL  
• PAPER  
★ CONVE

## ABOUT THE COMPANY

The Friend organization has served the legal profession nationwide quality products for 50 years. We were the first concern in the United States exclusively to Attorneys.

Our methods of operation and prices are strictly wholesale; we sell to Attorneys and retail Stationery stores for resale. We are not connected in with price-recommending organizations and when we issue a price it is the consistent with the quality offered.

Our papers are manufactured to very rigid specifications developed by many years' experience, with special attention to finish, durability and permanent factors that are so important in papers used to prepare legal documents. We sell "stock" papers which are generally unsuited to legal typewriter work.

We either manufacture or convert all of our products in our own plants. We have one of the best equipped Steel Die Engraving departments in the country devoted entirely to producing professional stationery.

Our paper mills and manufacturing facilities are so strategically located as to bring about exceptionally low cost distribution to every section of the United States and Canada.

In presenting this catalog of our products we believe we have the best line on the market—selling by direct mail and thru representatives since 1908. We feel, given us the competence to produce products that will meet your most exacting requirements.

*Friend Quality*

GENUINE STEEL DIE

## ENGRAVED STATIONERY

**e specialize —**

Our specialty is Genuine Steel Die Engraved Stationery for the professional profession. A record of 50 years in designing and manufacturing professional requirements has earned us an unequaled reputation in furnishing outstanding qualities of papers and workmanship.

**pays to use good Stationery —**

Using good stationery can do more to characterize your office than perhaps any other factor. Each year your correspondence reaches hundreds of clients and prospects, and the impressions created should be fully representative of your practice and services.

**e have a real value —**

Every letter you send is your ambassador, revealing in a strong way the character of your services. FRIEND'S engraved stationery has elegance and dignity. The quality of our papers and workmanship will probably impress the recipient in a way that ordinary stationery does not — and anything that so adds to your prestige can well be offered as a real value.

**STEEL DIES:** We do not make a charge for the Die when your initial order totals 2000 more pieces, and if copy, arrangement and design are such that one combination Die can be used for all items. Telephone numbers or lines may be deleted without injury to the Die when engraving envelopes, etc. All Dies remain in our files for your future orders. Dies are made on one-half inch steel. We do not use plates, type-photo reproduction or other short cut methods. Every Die is expertly engraved and handtooled.

**SERVICE:** Sufficient time should be allowed commensurate with good workmanship, especially in the case of orders where a new Die is necessary. Orders are generally completed in 7 to 9 days. Shipments are prompt when your Die is on file.

**PROOFS:** There is no such thing as a proof of genuine engraved stationery; either Die is made or it is not made. We will, however, be glad to furnish additional samples and can give rough sketches in some instances.

GENUINE STEEL DIE  
*Engraved*  
**Barrister Bond**  
100% NEW COTTON FIBRE

Our very best quality; the absolute "tops" in business correspondence. The beautiful white, distinctive finish and bank-note crispness make it especially suited for executive and professional Stationery. Positively the finest paper available - the ultimate in fine engraving.

Prices listed below are BASE RATES for copy that does not exceed 4 inches in width. For medium size Die-copy, 4 to 6 inches wide, add \$1.00 per M; large Die-copy, 6 to 8 inches, add \$2.00 per M.

PRICE LIST

20 LB. WEIGHT

	500	1000	3000	5000	10,000
Letterheads 8½ x 11 or Envelopes No. 6½	\$ 9.35	\$ 14.50	\$ 13.90 M	\$ 13.40 M	\$ 12.90 M
Envelopes No. 10 (large size)	10.55	16.90	16.30 M	15.80 M	15.30 M
PLAIN PAPER (to match Letterheads) for Second Pages \$5.75 per ream					

STEEL DIES will not be charged for if your first order totals 2000 or more impressions; and if your copy is average size and arrangement.

**FRIEND & COMPANY** SINCE 1908 *Fine Stationery*  
55 WEST GREEN STREET • PASADENA 1, CALIFORNIA



GENUINE STEEL DIE  
*Engraved*

# *Title Linen Bond*

50% NEW COTTON FIBRE

The popular quality, made in the same careful manner as our nationally famous Title Linen typewriter papers. This fine paper presents an excellent Stationery value and thus enjoys wide usage and popular acceptance.

Prices listed below are BASE RATES for copy that does not exceed 4 inches in width. For medium size Die-copy, 4 to 6 inches wide, add \$1.00 per M; large Die-copy, 6 to 8 inches, add \$2.00 per M.

PRICE LIST

20 LB. WEIGHT

	500	1000	3000	5000	10,000
Letterheads 8½ x 11 or Envelopes No. 6½	\$ 6.95	\$ 9.75	\$9.15 M	\$8.65 M	\$ 8.15 M
Envelopes No. 10 (large size)	7.95	12.25	11.50 M	10.90 M	10.45 M
PLAIN PAPER (to match Letterheads) for Second Pages \$3.25 per ream					

24 lb., EXTRA HEAVY WEIGHT, add \$1.00 per M to the above prices.


STEEL DIES will not be charged for if your first order totals 2000 or more impressions; and if your copy is average size and arrangement.

**FRIEND & COMPANY** SINCE 1908 *Fine Stationery*  
55 WEST GREEN STREET • PASADENA 1, CALIFORNIA



# Friend Quality PRINTED STATIONERY

Highest grade letterpress printed Letterheads and matching Envelopes in our three popular paper qualities. Attractive styles and arrangements produced with hand-set genuine foundry types in perfect professional taste - combined value and economy.

  
**Title Linen Bond**  
50% NEW COTTON FIBRE


The utility paper, possessing all the qualities, cockle finish, bright white color, crispness and good erasing. This grade represents our best stationery value, costing less than you'd expect to pay for the inferior wood sulphite bond papers.

	500	1000	2000	3000	10,000
Letterheads 8½ x 11 or Envelopes No. 6½	\$6.75	\$12.70	\$22.10 M	\$37.60 M	\$7.10 M
Envelopes No. 10 (large size)	7.75	10.60	9.90 M	9.30 M	8.85 M
PLAIN PAPER (to match Letterheads) for Second Page sheets \$3.25 per ream 8½ x 7½ deduct .75 M; 8½ x 5½ deduct .90 M Extra heavy 24 pound weight, add 1.00 per M					

*Friends*  
**ERASABLE FINISH**  
BOND  
COTTON CONTENT

A specially treated paper that has remarkable erasing qualities. Correcting typing errors is simply a matter of using a pencil eraser; words brush off quickly and easily, leaving no smudge or messy marks. Real economy in time and energy.

	500	1000	2000	3000	10,000
Letterheads 8½ x 11	\$7.75	\$10.70	\$10.10 M	\$9.60 M	\$9.10 M
We recommend TITLE LINEN BOND ENVELOPES for use with the ERASABLE FINISH BOND LETTERHEADS. See rates above.					
PLAIN PAPER (to match Letterheads) for Second Page sheets \$4.25 per ream 8½ x 7½ deduct .90 M; 8½ x 5½ deduct 1.20 M					

  
**Barrister Bond**  
100% NEW COTTON FIBRE

Crisp feel and unusual beauty with banknote snap that lends authority to your written messages are distinguishing features of this 100% new cotton fibre paper. It is positively the ultimate in fine writing papers. Nothing better in the market.

	500	1000	2000	3000	10,000
Letterheads 8½ x 11 or Envelopes No. 6½	\$9.35	\$13.40	\$12.80 M	\$12.30 M	\$11.80 M
Envelopes No. 10 (large size)	10.40	15.90	15.20 M	14.70 M	14.20 M
PLAIN PAPER (to match Letterheads) for Second Page sheets \$5.75 per ream 8½ x 7½ deduct 1.00 M; 8½ x 5½ deduct 1.30 M Extra heavy 24 pound weight, add 2.00 per M					

Monarch size - Letterheads 7½ x 10½ with matching #8 Envelopes - are available in above qualities at the rates applying on 8½ x 11 and #10 sizes. See engraving section for samples of Barrister Bond and Erasable Finish Bond papers.

# FRIEND'S

## CATALOG OF QUALITY SUPPLIES FOR THE LAW OFFICE

We are proud to present Catalog No. 56. We have endeavored to make it a clear and complete one for your Stationery requirements; and hope, for your convenience and constant use, that we have succeeded in this effort.

### *General Information*

**PRICES** Prices in this Catalog are NET WHOLESALE and are not subject to further discounts. Due to the fact that we operate on a very narrow profit margin, and our raw materials and supplies are contracted for on an annual basis, it is necessary that all prices be subject to change without notice. Sales taxes to be added when applicable.

**TERMS** NET CASH within 30 days after date of our Invoice. We prefer to ship on open account to offices of recognized credit standing, satisfactory directory rating and to those furnishing suitable references. We reserve the right to charge 7 per cent interest on past due accounts. We do not ship C. O. D. to our customers; to do so, we feel, is disrespectful and discourteous.

**ORDERING** Please be sure to send detailed information as to your requirements. Send samples whenever possible with notations on each sheet as to quantity, grade, changes in copy, etc. It is especially important to give good copy and instructions on orders for engraved and printed stationery.

**SAMPLES** We are always glad to furnish additional samples. If you do not see a style or arrangement that fits your purposes we shall appreciate the opportunity to submit specimens. Please do not remove samples from catalog, in ordering it is necessary only to refer to sample by name or number.

**SHIPMENT** F.O.B. Pasadena, California. We ship prepaid via the most economical method, and add charges to Invoice. Orders are filled promptly, usually in 7 to 9 days; except for Engraved Stationery where new Dies are necessary. It is suggested that orders be combined so as to take advantage of the low truck rates to practically every point in the eleven western states. Please do not return goods without first receiving our written permission.

# FRIEND and Company

Division of FRIEND PAPER COMPANY

1001 GREEN STREET Telephone (Area 213) 793-1767 PASADENA, CALIFORNIA 91101

7201

Edition 1964

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EXHIBIT No. 62  
FOR IDENTIFICATION  
JUNE PENNON, N.E.  
1



## ABOUT THIS COMPANY

The Friend family has been in the paper business since the late 19th century, originally manufacturing writing papers and envelopes in Ohio's Miami valley. In 1908 the Friend Brothers established in Illinois the first concern in the country to sell their stationery exclusively to law offices. Friend and Company, a division of the Friend Paper Company of Zion, Illinois, is operated by W. H. Friend, and is a pioneer in providing specialized paper products for the legal profession and related fields.

Our methods of operation and prices are strictly wholesale; we sell only to Attorneys and to Stationery stores for resale. We are not connected with any firm of similar name, nor with price-recommending organizations and when we issue a price list it is the lowest consistent with the quality offered.

Our papers are manufactured to very rigid specifications developed from many years' experience, with special attention to finish, durability and permanence — factors that are so important in papers used to prepare legal documents. We do not sell "stock" papers which are generally unsuited to legal typewriter work.

We either manufacture or convert all of our products in our own plants. We have one of the best equipped Steel Die Engraving departments in the country devoted entirely to producing professional stationery. Our paper mills and manufacturing facilities are so strategically located as to bring about exceptionally low cost distribution throughout the United States and Canada.

In presenting this catalog of our products we believe we have the best line on the market. Selling direct mail and thru representatives for so many years has, we feel, given us the competence to produce products that will meet your most exacting requirements.

*Friend Quality*

GENUINE STEEL DIE

## ENGRAVED STATIONERY

### Specialize —

Our specialty is Genuine Steel Die Engraved Stationery for the profession. A record of 50 years in designing and manufacturing professional requirements has earned us an unequaled reputation in furnishing outstanding qualities of papers and workmanship.

### Why to use good Stationery —

Using good stationery can do more to characterize your office perhaps any other factor. Each year your correspondence reaches hundreds of clients and prospects, and the impressions created should be fully representative of your practice and services.

### Why have a real value —

Every letter you send is your ambassador, revealing in a strong way the character of your services. FRIEND'S engraved stationery has grace and dignity. The quality of our papers and workmanship will definitely impress the recipient in a way that ordinary stationery does not — and anything that so adds to your prestige can well be offered as of real value.

**DIES:** We do not make a charge for dies when your initial order totals 2000 pieces, and if copy, arrangement and design are such that one combination Die can be used for all items. Telephone numbers or names may be deleted without injury to the die when engraving envelopes, etc. All dies remain in our files for your future orders. Dies are made on one-half inch steel. We do not use plates, type-photo reproduction or other short cut methods. Every Die is carefully engraved and handtooled.

**SERVICE:** Sufficient time should be allowed commensurate with good workmanship, especially in the case of orders where a new Die is necessary. Orders are generally completed in 7 to 9 days. Shipments are prompt when your Die is on file.

**PROOFS:** There is no such thing as a proof of genuine engraved stationery; either Die is made or it is not made. We will, however, be glad to furnish additional samples and can give rough sketches in some instances.

# Friend Quality

GENUINE STEEL DIE

## ENGRAVED STATIONERY

Engraving prices listed below are **BASE RATES** for die-copy not exceeding 4 inches in width. For large die-copy, add \$2.00 per M (\$2.00 minimum). Steel dies will not be charged for if your initial order is for 2000 or more impressions, and if copy is average in size and arrangement.



Our best quality all cotton content bond of unusual beauty, with fine banknote snap to lend authority to your typewritten correspondence.

20 Lb. WEIGHT	500	1000	3000	5000	10,000
Letterheads 8½x11	\$ 12.60	\$ 18.40	\$ 17.80 <sup>M</sup>	\$ 17.10 <sup>M</sup>	\$ 16.6
Envelopes No. 10	14.60	20.60	20.00 <sup>M</sup>	19.30 <sup>M</sup>	18.8
PLAIN PAPER (to match letterheads) for Second Pages \$ 5.00 per ream EXTRA HEAVY 24 lb. weight, add \$ 7.00 per M					



A special treated new cotton paper with remarkable erasing qualities. Correcting errors is simply a matter of using a pencil eraser - no fuss!

20 Lb. WEIGHT	500	1000	3000	5000	10,000
Letterheads 8½x11	\$ 11.30	\$ 15.80	\$ 15.20 <sup>M</sup>	\$ 14.50 <sup>M</sup>	\$ 14.0
Envelopes No. 10	11.50	18.50	17.90 <sup>M</sup>	17.20 <sup>M</sup>	16.7
PLAIN PAPER (to match letterheads) for Second Pages \$ 4.50 per ream Note: Envelopes to match this grade are supplied in Title Linen Bond, regular finish.					



The utility paper with all qualities: bright-white color, cockle finish and excellent erasing, costing less than you'd expect to pay for sulphites.

20 Lb. WEIGHT	500	1000	3000	5000	10,000
Letterheads 8½x11	\$ 10.60	\$ 14.40	\$ 13.80 <sup>M</sup>	\$ 13.10 <sup>M</sup>	\$ 12.6
Envelopes No. 10	11.50	18.50	17.90 <sup>M</sup>	17.20 <sup>M</sup>	16.7
PLAIN PAPER (to match letterheads) for Second Pages \$ 3.80 per ream EXTRA HEAVY 24 lb. weight, add \$ 1.00 per M					

**DIFFERENTIALS APPLYING TO ABOVE QUALITIES:**  
**ENVELOPES** No. 6½ (small size), priced as for Letterheads 8½x11  
**MONARCH SIZES:** Letterheads 7½x10½, and the matching No. 8 patented flap Envelopes, priced as for 8½x11 Letterheads and No. 10 Envelopes, respectively.

**DEDUCTIONS for small letterhead sizes:**  
**BARRISTER BOND** 8½x7½ less \$ 1.00 8½x5½ less \$ 1.30  
**ERASABLE FINISH BOND** 8½x7½ less \$ .90 8½x5½ less \$ 1.20  
**TITLE LINEN BOND** 8½x7½ less \$ .75 8½x5½ less \$ .90

# Friend Quality

## PRINTED STATIONERY


Highest grade letterpress printed Letterheads and matching Envelopes in our three popular paper qualities. Attractive styles and arrangements produced with hand-set genuine foundry types in perfect professional taste - combined value and economy.

 **Barrister Bond**  
COTTON FIBRE

Our best quality all cotton content bond of unusual beauty, with fine banknote snap to lend authority to your typewritten correspondence.

20 LB. WEIGHT	500	1000	3000	5000	10 000
Letterheads 8½x11	\$ 9.80	\$ 16.50	\$ 14.80 <sup>M</sup>	\$ 14.20 <sup>M</sup>	\$ 13.40 <sup>M</sup>
Envelopes No. 10	11.80	17.20	15.60 <sup>M</sup>	14.90 <sup>M</sup>	14.60 <sup>M</sup>

PLAIN PAPER (to match letterheads) for Second Pages \$ 5.80 per ream  
EXTRA HEAVY 24 lb. weight, add \$ 2.00 per M

 **Eraser Finish Bond**

A special treated new cotton paper with remarkable erasing qualities. Correcting errors is simply a matter of using a pencil eraser - no fuss!

20 LB. WEIGHT	500	1000	3000	5000	10 000
Letterheads 8½x11	\$ 9.50	\$ 13.90	\$ 12.20 <sup>M</sup>	\$ 11.60 <sup>M</sup>	\$ 10.80 <sup>M</sup>
Envelopes No. 10	9.40	13.80	12.20 <sup>M</sup>	11.50 <sup>M</sup>	11.20 <sup>M</sup>

PLAIN PAPER (to match letterheads) for Second Pages \$ 4.50 per ream  
Note: Envelopes to match this grade are supplied in Title Linen Bond, regular finish.

 **Title Linen Bond**  
COTTON FIBRE CONTENT

The utility paper with all qualities: brile-white color, cockle finish and excellent erasing, costing less than you'd expect to pay for sulphites.

20 LB. WEIGHT	500	1000	3000	5000	10 000
Letterheads 8½x11	\$ 8.80	\$ 12.60	\$ 10.90 <sup>M</sup>	\$ 10.30 <sup>M</sup>	\$ 9.50 <sup>M</sup>
Envelopes No. 10	9.40	13.80	12.20 <sup>M</sup>	11.50 <sup>M</sup>	11.20 <sup>M</sup>

PLAIN PAPER (to match letterheads) for Second Pages \$ 3.80 per ream  
EXTRA HEAVY 24 lb. weight, add \$ 1.00 per M

### DIFFERENTIALS APPLYING TO ABOVE QUALITIES:

ENVELOPES No. 6½ (small size), priced as for Letterheads 8½x11  
ONARCH SIZES: Letterheads 7½x10½, and the matching No. 9 pointed flap envelopes, priced as for 8½x11 Letterheads and No. 10 Envelopes, respectively.

### DEDUCTIONS for small letterhead sizes:

BARRISTER BOND 8½x7½ less \$ 1.00 8½x5½ less \$ 1.30  
ERASABLE FINISH BOND 8½x7½ less \$ .90 8½x5½ less \$ 1.20  
TITLE LINEN BOND 8½x7½ less \$ .75 8½x5½ less \$ .90



# FRIEND'S

**QUALITY SUPPLIES FOR THE LAW OFFICE**

## PRICE LIST

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April 1, 1961

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**PRICES** listed are **NET WHOLESALE** to law offices and stationery stores, and are not subject to further discounts. Prices subject to change without notice. Sales taxes extra.

**TERMS:** **NET CASH** within 30 days from date of our invoice. We prefer to ship open account to those of recognized credit standing or on reference. We do not ship C.O.D.

**ORDERS** - Please send detailed information, sending samples whenever possible, with notations on each sheet as to quantity, grade, changes in copy. Good copy is important.

**SHIPMENTS** F.O.B. Pasadena, California. We ship via the most economical method and add charges to invoice. Do not return goods without first receiving our written permission.




**FRIEND** *and Company* • **WESTERN DIVISION**

**55 WEST GREEN STREET • Telephone SYcamore 3-1767 • PASADENA 1, CALIFORNIA**

GENUINE STEEL DIE




# Engraved Stationery

prices listed below are **BASE RATES** for die copy not exceeding 4 inches in width. For large die copy, add \$2.00 per M. No charge will be made for if your initial order is for 2000 or more impressions; and if copy is average in size and arrangement.

	20 LB. WEIGHT	500	1000	3000	5000	10,000
 <b>Barrister Bond</b>	Letterheads 8 1/2 x 11	\$ 11.60	\$ 17.40	\$ 16.80 M	\$ 16.10 M	\$ 15.60 M
	Envelopes No. 10	13.60	18.60	18.00 M	17.30 M	16.80 M
	PLAIN PAPER (to match letterheads) for Second Pages \$ 5.80 per room EXTRA HEAVY 24 lb. weight, add \$ 2.00 per M					
	20 LB. WEIGHT	500	1000	3000	5000	10,000
 <b>Eraserable Finish Bond</b>	Letterheads 8 1/2 x 11	\$ 10.30	\$ 14.80	\$ 14.20 M	\$ 13.50 M	\$ 13.00 M
	Envelopes No. 10	10.50	16.50	15.90 M	15.20 M	14.70 M
	PLAIN PAPER (to match letterheads) for Second Pages \$ 4.50 per room Note: Envelopes to match this grade are supplied in Title Linen Bond, regular finish.					
	20 LB. WEIGHT	500	1000	3000	5000	10,000
 <b>Title Linen Bond</b> COTTON FIBRE CONTENT	Letterheads 8 1/2 x 11	\$ 9.60	\$ 13.40	\$ 12.80 M	\$ 12.10 M	\$ 11.60 M
	Envelopes No. 10	10.50	16.50	15.90 M	15.20 M	14.70 M
	PLAIN PAPER (to match letterheads) for Second Pages \$ 3.80 per room EXTRA HEAVY 24 lb. weight, add \$ 1.00 per M					

# LETTERPRESS Printed Stationery

prices listed below cover the regular professional stationery styles and arrangements produced with genuine hand set foundry type.

	20 LB. WEIGHT	500	1000	3000	5000	10,000
 <b>Barrister Bond</b>	Letterheads 8 1/2 x 11	\$ 9.80	\$ 15.50	\$ 13.80 M	\$ 13.20 M	\$ 12.40 M
	Envelopes No. 10	11.80	16.20	14.60 M	13.90 M	13.60 M
	PLAIN PAPER (to match letterheads) for Second Pages \$ 3.80 per room EXTRA HEAVY 24 lb. weight, add \$ 2.00 per M					
	20 LB. WEIGHT	500	1000	3000	5000	10,000
 <b>Eraserable Finish Bond</b>	Letterheads 8 1/2 x 11	\$ 8.50	\$ 12.90	\$ 11.20 M	\$ 10.60 M	\$ 9.80 M
	Envelopes No. 10	8.70	12.80	11.20 M	10.50 M	10.20 M
	PLAIN PAPER (to match letterheads) for Second Pages \$ 4.50 per room Note: Envelopes to match this grade are supplied in Title Linen Bond, regular finish.					
	20 LB. WEIGHT	500	1000	3000	5000	10,000
 <b>Title Linen Bond</b> COTTON FIBRE CONTENT	Letterheads 8 1/2 x 11	\$ 7.80	\$ 11.50	\$ 9.80 M	\$ 9.20 M	\$ 8.40 M
	Envelopes No. 10	8.70	12.80	11.20 M	10.50 M	10.20 M
	PLAIN PAPER (to match letterheads) for Second Pages \$ 3.80 per room EXTRA HEAVY 24 lb. weight, add \$ 1.00 per M					

**INITIALS APPLYING TO ABOVE QUALITIES:**

ES No. 6 1/2 (small size), priced as for Letterheads 8 1/2 x 11  
M SIZES: Letterheads 7 1/2 x 10 1/2, and the matching No. 8 pointed flap  
priced as for 8 1/2 x 11 Letterheads and No. 10 Envelopes, respectively

**DEDUCTIONS for small letterhead sizes:**

BARRISTER BOND	8 1/2 x 7 1/2 less \$ 1.00	8 1/2 x 5 1/2 less \$ 1.30
ERASABLE FINISH BOND	8 1/2 x 7 1/2 less \$ .90	8 1/2 x 5 1/2 less \$ 1.20
TITLE LINEN BOND	8 1/2 x 7 1/2 less \$ .75	8 1/2 x 5 1/2 less \$ .90



# FRIEND'S

QUALITY SUPPLIES FOR THE LAW OFFICE

## PRICE LIST

January 1, 1964

PRICES listed are NET WHOLESALE to law offices and stationery stores, and are not subject to further discounts. Prices subject to change without notice. Sales taxes extra.

TERMS: NET CASH within 30 days from date of our invoice. We prefer to ship open account to those of recognized credit standing or on reference. We do not ship C.O.D.

ORDERS - Please send detailed information, sending samples whenever possible, with notations on each sheet as to quantity, grade, changes in copy. Good copy is important.




SHIPMENTS F.O.B. Pasadena, California. We ship via the most economical method and add charges to invoice. Do not return goods without first receiving our written permission.

**FRIEND** *and Company* • WESTERN DIVISION  
55 WEST GREEN STREET • Telephone SYcamore 3-1767 • PASADENA 1, CALIFORNIA

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


## GENUINE STEEL DIE Engraved Stationery

Prices below are **BASE RATES** for die copy not over 4 inches wide. For larger dies, add \$2.00 per M (\$2.00 minimum)  
 No charge will be made for your initial order is for 2000 or more impressions, and if copy is average in size and arrangement.

 <b>Barrister Bond</b>	SOLE WEIGHT	500	1000	3000	5000	10,000
	Letterheads 8½x11	\$ 12.60	\$ 18.40	\$ 17.80 <sup>M</sup>	\$ 17.10 <sup>M</sup>	\$ 16.60 <sup>M</sup>
	Envelopes No. 10	14.60	20.60	20.00 <sup>M</sup>	19.30 <sup>M</sup>	18.80 <sup>M</sup>
PLAIN PAPER (to match letterheads) for Second Pages \$ 3.80 per room EXTRA HEAVY 24 lb. weight, add \$ 2.00 per M						
 <b>Friends ERASABLE FINISH Bond</b>	SOLE WEIGHT	500	1000	3000	5000	10,000
	Letterheads 8½x11	\$ 11.30	\$ 15.80	\$ 15.20 <sup>M</sup>	\$ 14.50 <sup>M</sup>	\$ 14.00 <sup>M</sup>
	Envelopes No. 10	11.50	18.50	17.90 <sup>M</sup>	17.20 <sup>M</sup>	16.70 <sup>M</sup>
PLAIN PAPER (to match letterheads) for Second Pages \$ 4.50 per room Note: Envelopes to match this grade are supplied in Title Linen Bond, regular finish.						
 <b>Title Linen Bond</b> 50% COTTON FIBRE CONTENT	SOLE WEIGHT	500	1000	3000	5000	10,000
	Letterheads 8½x11	\$ 10.60	\$ 14.40	\$ 13.80 <sup>M</sup>	\$ 13.10 <sup>M</sup>	\$ 12.60 <sup>M</sup>
	Envelopes No. 10	11.50	18.50	17.90 <sup>M</sup>	17.20 <sup>M</sup>	16.70 <sup>M</sup>
PLAIN PAPER (to match letterheads) for Second Pages \$ 3.80 per room EXTRA HEAVY 24 lb. weight, add \$ 1.00 per M						

## LETTERPRESS Printed Stationery

Prices listed below cover the regular professional stationery styles and arrangements produced with genuine hand set foundry type.

 <b>Barrister Bond</b>	SOLE WEIGHT	500	1000	3000	5000	10,000
	Letterheads 8½x11	\$ 9.80	\$ 16.50	\$ 14.80 <sup>M</sup>	\$ 14.20 <sup>M</sup>	\$ 13.40 <sup>M</sup>
	Envelopes No. 10	11.80	17.20	15.60 <sup>M</sup>	14.90 <sup>M</sup>	14.60 <sup>M</sup>
PLAIN PAPER (to match letterheads) for Second Pages \$ 3.80 per room EXTRA HEAVY 24 lb. weight, add \$ 2.00 per M						
 <b>Friends ERASABLE FINISH Bond</b>	SOLE WEIGHT	500	1000	3000	5000	10,000
	Letterheads 8½x11	\$ 9.50	\$ 13.90	\$ 12.20 <sup>M</sup>	\$ 11.60 <sup>M</sup>	\$ 10.80 <sup>M</sup>
	Envelopes No. 10	9.40	13.80	12.20 <sup>M</sup>	11.50 <sup>M</sup>	11.20 <sup>M</sup>
PLAIN PAPER (to match letterheads) for Second Pages \$ 4.50 per room Note: Envelopes to match this grade are supplied in Title Linen Bond, regular finish.						
 <b>Title Linen Bond</b> 50% COTTON FIBRE CONTENT	SOLE WEIGHT	500	1000	3000	5000	10,000
	Letterheads 8½x11	\$ 8.80	\$ 12.60	\$ 10.90 <sup>M</sup>	\$ 10.30 <sup>M</sup>	\$ 9.50 <sup>M</sup>
	Envelopes No. 10	9.40	13.80	12.20 <sup>M</sup>	11.50 <sup>M</sup>	11.20 <sup>M</sup>
PLAIN PAPER (to match letterheads) for Second Pages \$ 3.80 per room EXTRA HEAVY 24 lb. weight, add \$ 1.00 per M						

**DIFFERENTIALS APPLYING TO ABOVE QUALITIES:**

ENVELOPES No. 4½ (small size), priced as for Letterheads 8½x11

**MARCH SIZES:** Letterheads 7½x10½, and the matching No. 8 pointed Rap

Envelopes, priced as for 8½x11 Letterheads and No. 10 Envelopes, respectively.

**DEDUCTIONS for small letterhead sizes:**

**BARRISTER BOND** 8½x7¼ less \$ 1.00 8½x5½ less \$ 1.20

**ERASABLE FINISH BOND** 8½x7¼ less \$ .90 8½x5½ less \$ 1.20

**TITLE LINEN BOND** 8½x7¼ less \$ .75 8½x5½ less \$ .90

## APPENDIX II

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### RELEVANT STATUTORY MATERIAL

#### 15 U.S.C. §1111

Notwithstanding the provisions of section 1072 of the title, a registrant of a mark registered in the Patent Office, may give notice that his mark is registered displaying with the mark as used the words "Registered in U. S. Patent Office" or "Reg. U. S. Pat. Off." or the letter R enclosed within a circle, thus ®; and in any suit for infringement under this chapter by such a registrant failing to give such notice of registration, no profits and no damages shall be recovered under the provisions of this chapter unless the defendant had actual notice of the registration.

#### 15 U.S.C. §1114(1)

(1) Any person who shall, without the consent of the registrant—

(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; or

(b) reproduce, counterfeit, copy, or colorably imitate a registered mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services or

or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive.

shall be liable in a civil action by the registrant for the remedies hereinafter provided. Under subsection (b) of this section, the registrant shall not be entitled to recover profits or damages unless the acts have been committed with knowledge that such imitation is intended to be used to cause confusion, or to cause mistake, or to deceive.

U.S.C. §1115(b)

(b) If the right to use the registered mark has become incontestable under section 1065 of this title, the registration shall be conclusive evidence of the registrant's exclusive right to use the registered mark in commerce on or in connection with the goods or services specified in the affidavit filed under the provisions of said section 1065 subject to any conditions or limitations stated therein except when one of the following defenses or defects is established:

(1) That the registration or the incontestable right to use the mark was obtained fraudulently; or

(2) That the mark has been abandoned by the registrant; or

(3) That the registered mark is being used, by or with the permission of the registrant or a person in privity with the registrant, so as to misrepresent the source of the goods or services in connection with which the mark is used; or

(4) That the use of the name, term, or device charged to be an infringement is a use, otherwise than as a trade or service mark, of the party's individual name in his own business, or of the individual name of anyone in privity with such party, or of a term or device which is

descriptive of and used fairly and in good faith only to describe to users the goods or services of such party, or their geographic origin; or

(5) That the mark whose use by a party is charged as an infringement was adopted without knowledge of the registrant's prior use and has been continuously used by such party or those in privity with him from a date prior to registration of the mark under this chapter or publication of the registered mark under subsection (c) of section 1062 of this title: *Provided, however,* That this defense or defect shall apply only for the area in which such continuous prior use is proved; or

6) That the mark whose use is charged as an infringement was registered and used prior to the registration under this chapter or publication under subsection (c) of section 1062 of this title of the registered mark of the registrant, and not abandoned: *Provided, however,* That this defense or defect shall apply only for the area in which the mark was used prior to such registration or such publication of the registrant's mark; or

(7) That the mark has been or is being used to violate the antitrust laws of the United States.

#### 15 U.S.C. §1116

The several courts vested with jurisdiction of such actions arising under this chapter shall have power to grant injunctions, according to the principles of equity and upon such terms as the court may deem reasonable to prevent the violation of any right of the registrant of a mark registered in the Patent Office. Any such injunction may include a provision directing the defendant to file with the court and serve on the plaintiff within thirty days after the service on the defendant of such inju

ia, or such extended period as the court may direct, report in writing under oath setting forth in detail the manner and form in which the defendant has complied with the injunction. Any such injunction granted upon hearing, after notice to the defendant, by any district court of the United States, may be served on the parties against whom such injunction is granted anywhere in the United States where they may be found, and shall be operative and may be enforced by proceedings to punish for contempt, or otherwise, by the court by which such injunction was granted, or by any other United States district court in whose jurisdiction the defendant may be found.

The said courts shall have jurisdiction to enforce said injunction, as provided in this chapter, as fully as if the injunction had been granted by the district court in which it is sought to be enforced. The clerk of the court or judge granting the injunction shall, when required to do so by the court before which application to enforce said injunction is made, transfer without delay to said court a certified copy of all papers on file in his office upon which said injunction was granted.

It shall be the duty of the clerks of such courts within one month after the filing of any action, suit, or proceeding arising under the provisions of this chapter to give notice thereof in writing to the Commissioner setting forth in order so far as known the names and addresses of the litigants and the designating number or numbers of the registration or registrations upon which the action, suit, or proceeding has been brought, and in the event any other registration be subsequently included in the action, suit, or proceeding by amendment, answer, or other pleading, the clerk shall give like notice thereof to the Commissioner, and within one month after the deci-



sion is rendered, appeal taken or a decree issued the clerk of the court shall give notice thereof to the Commissioner, and it shall be the duty of the Commissioner on receipt of such notice forthwith to endorse the same upon the file wrapper of the said registration or registrations and to incorporate the same as a part of the contents of said file wrapper. July 5, 1946, c. 540, Title VI, § 34, 60 Stat. 439.

#### 15 U.S.C. §1117

When a violation of any right of the registrant of a mark registered in the Patent Office shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 and 1114 of this title, and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty.

5 U.S.C. §1125(a)

(a) Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used in commerce or deliver the same to any carrier to be transported or used, shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or in the region in which said locality is situated, or by any person who believes that he is or is likely to be damaged by the use of any such false description or representation.

California Civil Code §3294

"In any action for the breach of an obligation not arising from contract where the defendant has been guilty of oppression, fraud, or malice, express or implied, the plaintiff, in addition to the actual damage, may recover damages for the sake of example and by way of punishing the defendant."

California Civil Code §3369

§ 3369. [Relief not granted to enforce penalty, forfeiture or penal law: Exceptions: Unfair competition enjoined: Definitions: Who may prosecute actions.]  
1. Neither specific nor preventive relief can be granted to enforce a penalty or forfeiture in any case, nor to enforce a penal law, except in a case of nuisance or unfair competition.



2. [Unfair competition enjoinable.] Any person performing or proposing to perform an act of unfair competition within this State may be enjoined in any court of competent jurisdiction.

3. [Definitions.] As used in this section, unfair competition shall mean and include unfair or fraudulent business practice and unfair, untrue or misleading advertising and any act denounced by Penal Code sections 654a, 654b or 654c.

4. As used in this section, the term person shall mean and include natural persons, corporations, firms, partnerships, joint stock companies, associations and other organizations of persons.

5. [Who may prosecute actions.] Actions for injunction under this section may be prosecuted by the Attorney General or any district attorney in this State in the name of the people of the State of California upon their own complaint or upon the complaint of any board, officer, person, corporation or association or by any person acting for the interests of itself, its members or the general public.





N O. 2 2 4 9 1

IN THE UNITED STATES COURT OF APPEALS  
FOR THE NINTH DISTRICT

ESUS MARIA VALDEZ QUINTERO,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

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APPELLEE'S BRIEF

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APPEAL FROM  
THE UNITED STATES DISTRICT COURT  
FOR THE CENTRAL DISTRICT OF CALIFORNIA

---

WM. MATTHEW BYRNE, JR.  
United States Attorney

ROBERT L. BROSIO  
Assistant U. S. Attorney  
Chief, Criminal Division

HOWARD B. FRANK  
Assistant U. S. Attorney

1200 U. S. Court House  
312 North Spring Street  
Los Angeles, California 90012  
688-2415

Attorneys for Appellee,  
United States of America



## TOPICAL INDEX

	<u>Page</u>
Table of Authorities	ii
I        QUESTIONS PRESENTED	1
II       STATEMENT OF FACTS	2
III      ARGUMENT	5
1.     The Evidence Was Sufficient To Sustain The Conviction	5
2.     There Was No Error Committed By The Court In Permitting The Defendant's Witness To Testify After That Witness Had Been Fully And Completely Advised Of His Constitutional Rights Relating To Self Incrimination	7
IV      CONCLUSION	8



## TABLE OF AUTHORITIES

<u>Cases</u>	<u>Page</u>
Barnard v. United States, 342 F. 2d 309 (9th Cir. 1965)	5
Kaplan v. United States, 329 F. 2d 561 (9th Cir. 1964)	5
Lustiber v. United States, 386 F. 2d 132 (9th Cir. 1967)	5
Peek v. United States, 321 F. 2d 934 (9th Cir. 1963)	6

### Constitution

United States Constitution:

Fifth Amendment	7
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IN THE UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT

JESUS MARIA VALDEZ QUINTERO,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

---

APPELLEE'S BRIEF

I

QUESTIONS PRESENTED

1. Was The Evidence Submitted Sufficient  
To Sustain The Conviction?
2. Did The Court commit error by permitting the  
defendant's witness to testify after the witness  
was fully advised of his constitutional rights  
relating to self incrimination?



STATEMENT OF FACTS

On May 25, 1967, Frank Figueroa, Agent of the Federal Bureau of Narcotics was introduced to one Jose Galindo by an informant of the Bureau of Narcotics (R. T. 66). <sup>1/</sup>

The introduction took place at 3067 Feather Street, Baldwin Park, California (R. T. 66). Agent Figueroa and Galindo discussed the possibility of Figueroa purchasing heroin and arrangements were made for Figueroa to return the following day (R. T. 68).

On May 26, 1967 Agent Figueroa and the informant returned to the residence located at 3067 Feather Street, Baldwin Park at about 1:00 P. M. , and met once again with Galindo (R. T. 68). After Galindo received a telephone call, he left the residence along with Agent Figueroa and the informant. These three men proceeded in the informant's truck to Tenth and San Pedro Streets, Los Angeles (R. T. 69). At this location Galindo left the vehicle and met with defendant Jesus Maria Valdez Quintero (R. T. 70, 73). After a brief conversation Galindo returned to the truck and defendant Quintero entered a 1961 Mercury Automobile (R. T. 70).

Galindo, the informant, and Agent Figueroa entered the truck and drove past the 1961 Mercury. Galindo then signaled

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1/ Refers to reporter's transcript



the people in the automobile to follow the truck (R. T. 71). Co-defendant, Celia Gonzales Ramirez, was also in the Mercury (R. T. 73). The truck, with the Mercury following, proceeded to 3067 Feather Street, Baldwin Park, where all of these people entered the residence (R. T. 71, 73).

Inside the residence Galindo introduced Agent Figueroa and the informant to defendant Quintero and co-defendant Ramirez. Galindo, speaking to Quintero and Ramirez, referred to Agent Figueroa and the informant as the "people who want to buy the heroin." (R. T. 75.)

Agent Figueroa asked Quintero, "Do you have the heroin?" Quintero responded that he did have the heroin (R. T. 76).

Quintero acknowledged \$500 was an agreeable price for seven ounces of heroin (R. T. 76). Agent Figueroa then asked Quintero if he [Figueroa] could see and examine the seven ounces of heroin. Quintero then instructed the co-defendant Ramirez to produce the heroin for Agent Figueroa (R. T. 76). Miss Ramirez then removed a package from her purse and handed it to Quintero who handed it to Agent Figueroa, who opened the package (R. T. 77). This package contained Government Exhibit No. 1 (R. T. 79) and was determined to be heroin (R. T. 82).

After Agent Figueroa opened the package Quintero asked him if he had the money. Agent Figueroa said that he had the money and would get it to Quintero as soon as he looked at the



heroin (R. T. 78). Agent Figueroa examined the heroin and told the informant to go to the car and get the scales so that the quantity of heroin could be weighed (R. T. 80). Quintero and Miss Ramirez said that they never gave bad weight to one of their heroin customers (R. T. 81).

Shortly after the informant left the residence to get the scales, agents of the Federal Bureau of Narcotics responding to a pre-arranged signal by the informant entered the above described residence and placed Quintero, Ramirez and Galindo under arrest (R. T. 85). At the time of the transaction there was no mention of the heroin order form issued for that purpose by the Secretary of the Treasury. This order form was not produced by any of the parties to the transaction (R. T. 86).

The first witness called on behalf of the defendant Quintero was Mr. Jose Rivera Galindo, who the day prior to trial, had entered a guilty plea to violating the Federal Narcotics laws (R. T. 118, 123). Galindo was charged in the same three count indictment which was before the Court in the instant case (R. T. 125). Galindo plead guilty to one count (R. T. 126). Prior to the testimony of Galindo there was some discussion with regard to Galindo's constitutional rights of self incrimination (R. T. 118-123).

At the beginning of the defendant's case Galindo was not present in the courtroom. Counsel for Quintero objected to the Court's suggestion and request that Quintero proceed with his defense during the time period that the Court was waiting for





Galindo (R. T. 114-123). Galindo arrived and took the witness stand and was fully advised of his constitutional rights with respect to self incrimination (R. T. 124-128).

Direct examination of Galindo was then commenced by counsel for Quintero (R. T. 129). Galindo testified on direct examination that Quintero knew nothing about the heroin transaction involved in this case (R. T. 130).

### III

#### ARGUMENT

1. The Evidence Was Sufficient To Sustain The Conviction.
- 

It is a well settled rule that on appeal the Court is required to consider the evidence in a light most favorable to the Government. The test applied is whether reasonable minds could find that the evidence excludes every hypothesis but that of guilt.

Lustiber v. United States, 386 F. 2d 132, 134  
(9th Cir. 1967);

Barnard v. United States, 342 F. 2d 309, 317  
(9th Cir. 1965);

Kaplan v. United States, 329 F. 2d 561  
(9th Cir. 1964);



(9th Cir. 1963).

The evidence in the instant case was substantial against Quintero. At the time and place of transaction which led to the instant case Quintero was not only present but was indeed an active participant (R. T. 75-85). Agent Figueroa had made the arrangements for the heroin purchase the preceding day with one Jose Galindo (R. T. 68). When Galindo introduced Agent Figueroa to Quintero, Galindo said to Quintero that Figueroa was the one who wanted to buy the heroin (R. T. 75). A discussion ensued between Quintero and Agent Figueroa in which Agent Figueroa inquired if Quintero had the heroin. Quintero responded affirmatively (R. T. 76). After talking about the price Agent Figueroa requested to examine the heroin. At this point Quintero obtained the seven ounces of heroin from co-defendant Ramirez and handed it to Agent Figueroa (R. T. 77).

Quintero expressed his concern for the money and was told by Agent Figueroa that he would get the money as soon as he could examine the heroin and determine the weight of the heroin which was involved (R. T. 80). Quintero and co-defendant Ramirez stated that they never gave bad weight to any of their heroin customers (R. T. 81).

It is respectfully submitted that the evidence, considered in a light most favorable to the Government, is overwhelming to sustain the conviction of Quintero.



2. There Was No Error Committed By The Court In Permitting The Defendant's Witness To Testify After That Witness Had Been Fully And Completely Advised Of His Constitutional Rights Relating To Self Incrimination.
- 

Mr. Jose Galindo was called as a witness on behalf of Quintero. Galindo had previously entered a guilty plea to one count in the three count indictment (R. T. 118, 123, 125, 126). Galindo was not in Court when Quintero was ready to commence his case. The Court asked Quintero to begin his case while Galindo was on his way to the courtroom (R. T. 119-123).

Quintero insisted on waiting for Galindo to arrive and for Galindo to testify as his first witness (R. T. 114-123).

Counsel for Quintero indicated his belief that Galindo would exercise his Fifth Amendment rights against self incrimination (R. T. 119).

The only concern of the defendant was that they didn't want to proceed with any evidence prior to Galindo's testimony (R. T. 119-123).

Galindo took the witness stand and was fully and completely advised of his constitutional rights relating to self incrimination by the Court (R. T. 123-128). Galindo's testimony was very favorable to Quintero. Galindo testified that Quintero did not know anything about the heroin (R. T. 130).

The defendant cites no authority for the proposition that it is reversible error to permit a witness to testify in the absence



of his attorney.

Even if this could be considered error it must be harmless since Galindo was fully advised of his rights and still wanted to testify. Further, any error was surely harmless since Galindo's testimony was beneficial rather than harmful to Quintero.

#### IV

#### CONCLUSION

For the foregoing reasons it is respectfully submitted that the decision of the trial court should be affirmed.

Respectfully submitted,

WM. MATTHEW BYRNE, JR.  
United States Attorney

ROBERT L. BROSIO  
Assistant U. S. Attorney  
Chief, Criminal Division

HOWARD B. FRANK  
Assistant U. S. Attorney

Attorneys for Appellee  
United States of America





No. 22492

IN THE

# United States Court of Appeals

FOR THE NINTH CIRCUIT

---

SOUTHERN CALIFORNIA EDISON COMPANY, a corporation,  
tion,

*Appellant,*

*vs.*

UNITED STATES OF AMERICA,

*Appellee.*

---

## APPELLANT'S REPLY BRIEF.

---

RICHARD T. DRUKKER,  
ROLLIN E. WOODBURY,  
HUGH B. ROTCHFORD, and  
CHASE, ROTCHFORD, DRUKKER &  
BOGUST,

411 West Fifth Street,  
Los Angeles, Calif. 90013,

*Attorneys for Appellant.*

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# TOPICAL INDEX

	Page
I.	
Introduction .....	1
II.	
Absolute Liability .....	4
III.	
The Contract .....	7
IV.	
Constitutionality .....	10
V.	
Due Process of Law .....	17
VI.	
Conclusion .....	27
Appendix A. Chronological List of Authorities in Appellee's Brief .....	App. p. 1
Appendix B. Negligence as a Part of English and American Law .....	App. p. 5
Appendix C. Emergency Directive No. 5, June 30, 1968, pages 2710-3 and 2710-17.	
Appendix D. The Hammurabi Rule.	
Appendix E. The Wall Street Journal, June 28, 1968.	
Appendix F. Map.	
Appendix G. Map.	

## TABLE OF AUTHORITIES CITED

Cases	Page
Bolling v. Sharpe, 347 U.S. 497 .....	10, 25
Brown v. Board of Education, 347 U.S. 483 .....	10
Bydlon v. United States, 175 Fed. Supp. 891 .....	16
Civil Rights Cases, 109 U.S. 3 .....	14
Detroit Bank v. U.S., 317 U.S. 329 .....	25
Frost v. Railroad Comm. of California, 271 U.S. 583 .....	13
Garrity v. New Jersey, 385 U.S. 493 .....	14
Gideon v. Wainwright, 372 U.S. 335 .....	12
Harmon v. Forssennius, 380 U.S. 528 .....	14
Ivanhoe Irrigation District v. McCracken, 357 U.S. 275 .....	15
Lockport Light, Heat & Power Co. v. Maltby, 257 App. Div. 11, 12 N.Y.S. 595 .....	13
McClung v. Silliman, 6 Wheat, 598 .....	16
Murray's Lessee v. Hoboken Land & Improvement Co., 18 How. 272 .....	25
Pacific Gas & Electric Co. v. G. W. Thomas Dray- age & Rigging Co., 69 A.C. 28 .....	8
People, etc. v. Public Service Commission of New York, 264 N.Y. 17, 189 N.E. 764 .....	13
Perko v. Northwest Paper Co., 133 Fed. Supp. 560 ..	16
Perko v. United States, 204 F. 2d 446, cert. den. 346 U.S. 832 .....	16
Sinking Fund Cases, 99 U.S. 700 .....	25
Shelley v. Kraemer, 334 U.S. 1 .....	14, 15
Steward Machine Co. v. Davis, 301 U.S. 548 .....	25
United States v. Chicago etc. Ry., 282 U.S. 311 ....	14

### iii.

	Page
United States v. Perko, 108 Fed. Supp. 315 .....	16
United States v. Perko, 133 Fed. Supp. 564 .....	16
United States v. Perko, 141 Fed. Supp. 372 .....	16
Williams v. Standard Oil Co., 278 U.S. 235 .....	14
Yick Wo v. Hopkins, 118 U.S. 356 .....	14, 17

#### Miscellaneous

Forest Service Manual [Emergency Directive No. 5] June 30, 1968, pp. 2710-6 and 2710-7 .....	9
134 The National Geographic Magazine (Number 1, July 1968), p. 127 .....	6

#### Statutes

United States Constitution, Art. Four, Sec. 3 .....	16
United States Constitution, Art. Six .....	10
United States Constitution, Fifth Amendment .....	2, 4, 11, 25
United States Constitution, Fourteenth Amendment .....	14, 25

#### Textbooks

Bodenheimer, Due Process of Law and Justice, in Essays in Jurisprudence in Honor of Roscoe Pound, pp. 463-484 .....	26
Bowen, The Lion and the Throne, The Life and Times of Sir Edward Coke (1956), p. x .....	20
Bowen, The Lion and the Throne, The Life and Times of Sir Edward Coke (1956), pp. 108-109 .....	23
Bowen, The Lion and the Throne, The Life and Times of Sir Edward Coke (1956), pp. 490, 494- 504 .....	23

	Page
Bowen, The Lion and the Throne, The Life and Times of Sir Edward Coke (1956), pp. 513-515 .....	23
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Driver and Miles, the Babylonian Laws, (Reprint Edition 1956), pp. 56-7 .....	18
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Encyclopaedia Britannica, Vol. 1, (1964 Ed.), p. 595 .....	3
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73 Harvard Law Review, pp. 1595, 99-00 .....	14
Johns, The Oldest Code of Laws in the World, The Code of Laws Promulgated by Hammurabi, King of Babylon, B.C. 2285-2242 (1903), pp. 42-50 ....	18
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Mott, Due Process of Law, pp. 36-37 .....	26
Pickering, The Statutes at Large from the Fifteenth Year of King Edward III to the Thirteenth Year of King Henry IV (1762), p. 97 ..	19, 20
The Constitution of the United States of America Annotated (1964), pp. 959-960 .....	19
The Constitution of the United States of America Annotated (1964), pp. 973-975 .....	25

	Page
Thorne, Sir Edward Coke, pp. 9-13 .....	27
Thorne, Sir Edward Coke, pp. 10-12 .....	26
Warren, History of the Harvard Law School, Vol. 1 (1908), p. 139 .....	24
Warsoff, Equality and the Law, pp. 13-21, 42-47, 158-167, 224-225, 282-283, 306-307 .....	26





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SOUTHERN CALIFORNIA EDISON COMPANY, a corporation,

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---

## APPELLANT'S REPLY BRIEF.

---

### I.

#### Introduction.

In this case we made below, and make now, these essential points:

1. Absolute liability is an extreme rule, should be applied only in rare and manifest cases and cannot be imposed by administrative action in the circumstances here present.

2. That the contract (the use permit) in question must be interpreted to save its Constitutionality, if possible, and does not, as a matter of law, and *especially, upon motion for summary judgment*, impose absolute liability upon defendant.

3. The contract *by its terms* does not impose *absolute liability*.

4. Any interpretation of the contract which imposed absolute liability on the defendant while leaving its publicly-owned or consumer-owned counterparts re-

sponsible only for negligence is a denial of due process of law and the contained guarantee of equal protection of the laws established in the Fifth Amendment.

Ordinarily, one would suppose that an appellant's reply brief would be devoted only to rebuttal, and to reply to any new matter properly introduced into that brief. In our case, however, such cannot be the case. The United States, through the Attorney General and the United States Attorney has: (1) completely failed to meet the issues of law presented in the opening brief, and (2) introduced no new material whatsoever. With all due respect, we submit that the Government's brief is a parade of outmoded precedents, of cases which are not precedents at all, and a repetition of statements which are taken as true only because the Government says that they are true. Worse, the brief seems to ignore or quietly concede our points. Is this in hope the Court will overlook what we think are compelling precedents and convincing arguments?

**This is not a negligence case.** This is solely a claim that Edison is absolutely liable under a contract condition. The Government expressly stipulated that the Edison Company (defendant and appellant) was not negligent, thereby avoiding the trial of the issue, of contributory negligence and assumption of risk.

There is attached to this brief as Appendix A, a list of all of the authorities cited in the Government's brief in chronological order. In some cases, the citation of authority was extremely general and we do not know the primary source with any degree of exactitude. For example, on page 16 of appellee's brief, it is stated, "Since the times of Aethelbert and Alfred the Great, the doctrine of torts was that of absolute liability."

This statement is rested on no primary authority and on no text or precedent at all as far as one can read in the government's brief. In English history

there were at least two Aethelberts. One was King of Kent and ruled from 560 for about forty years. The other Aethelbert, a brother of Alfred the Great, was King, first of Kent, then also of Wessex. He ruled from about 858 to 865. Which King is the one meant is unknown to us.

1 Encyclopaedia Britannica (1964 Ed.) 230.

Alfred the Great was King of the West Saxons before the unification of Great Britain. He lived until about 900.

1 Encyclopaedia Britannica (1964 ed.) 595.

Sir Frederick Pollock and Frederick William Maitland, in their classic *History of English Law* (2d Ed. 1909), entitle the chapter dealing with Ethelbert I and Alfred the Great, "The Dark Age in Legal History." It is difficult to say more concerning the value of these authorities.

Surely when the Government says that "Negligence was unknown to the law until some thousand years later," (Government's Brief, p. 16) that is to say until 1900, there is a serious mistake. See Appendix B.

We do not, of course, contend that the ancient authorities are worthless. In fact, the ancient authorities, properly cited and understood, support the very rule of law which we contend requires reversal of the summary judgment. Equality of treatment of all persons by the government, both in its capacity as land proprietor and governor, is the essential which is derived from the entire background of our legal system, reinforced, as it has been, by the written Constitution of the United States. The concept argued in the brief of the Government that it can treat persons cavalierly when it is dealing with its own property is as false as the doctrine that an individual who owns property may use it as he

chooses without regard to fairness and equality. We doubt if it was ever the law that a man could use his property exactly as he chose without any reference to the welfare of or effect upon fellow human beings, but whatever the law may have been, it has at least been true since the time of Hammurabi's Code and Magna Carta, and the Constitution of the United States including the Fifth Amendment that our Government cannot act even with the liberties of a feudal noble. Not even the King of England, in the days of the most Divine Right, had the authority to deal unequally with his subjects.

The brief of the United States not only takes the position, contrary to law, that absolute liability is the rule and the responsibility to act prudently, or with reasonable care, the exception, but also seems to take the position that the Government has no limits whatever upon its use of public land. It seems hard to believe that these words come from the office of an Attorney General who so zealously has advocated equality in almost every other sphere of human activity.

## II.

### **Absolute Liability.**

In our opening brief (pp. 11-13) we thought we had cited text and decision which established, beyond question, that absolute liability was the exception and the duty of acting with reasonable care the rule. In the brief for the United States no direct answer is made to this argument but the position seems clearly to be taken that absolute liability is the real frontlet of our jurisprudence and, really, negligence is sort of an afterthought that uselessly crept into the law and really should play no part in our case. (See Brief for the United States, pp. 16-17). If absolute liability were always applicable as the government says it is, at least in forest fire matters, why for at least fifty years

has the government burdened itself with proving negligence. See Reporter's Transcript, pages 19-20.

The Government admitted in the argument of this case that the absolute liability clause was present for many years in similar contracts and had been in use since 1916; yet never before has the Government attempted to impose absolute liability. On the contrary, they always relied upon negligence, and so, in several cases, as to this very defendant [R. Tr. p. 9, undenied statement by the attorney for defendant], and [R. Tr. pp. 19-20 statement by the Government attorney]. In fact, the Trial Court was itself amazed:

"The Court: This is the first non-negligent electrically caused fire that has arisen under such contract even though it is over fifty years old?

Mr. Coleman: So far as I know. I don't know of any other such cases.

I will say this, that probably in the great majority of the cases negligence can be found. I would say that perhaps the fire which occurred in this case wasn't particularly a clearly negligently caused fire. Of course, that is now out of the case since a stipulation has been entered into by the parties."

We put it as the truth: In fifty years the Government has never attempted to impose absolute liability and has contented itself with collecting where it could prove negligence, and foregoing exactions where it could not.

Absolute liability is extremely rare in our law. It does not penalize fault; it penalizes coincidence and misfortune. It is not, and it should not, be the rule here. The Government's position (which, in substance, is that forest fires are ordinarily caused by vagrant electricity, that the transmission and distribution of electricity is a "high hazard" use of the forests), is illogical, rested upon no authority, immoral, and denied by the Government itself when it is convenient so to do.



Without desiring to repeat, it is to be noted that electricity is deemed a minor cause of forest fires—so small it cannot be statistically calculated (see Cl. Tr., Affidavit of Richard T. Drukker, page 121). The National Geographic Magazine, [Volume 134, Number 1, July 1968, p. 127], quotes Malcolm Hardy, Director of the Cooperative Forest Fire Prevention Program of the United States Forest Service (the symbol of which is Smokey the Bear) to say, "For the nation as a whole, however, nine out of ten forest fires result from somebody's carelessness, ignorance, bad luck or malicious disregard for the rights of others. A disturbingly large number—more than one in four are set intentionally. . . . Not far below incendiarism in the statistics is debris burning."

National Geographic Magazine, *ubi. cit.*, 127.

It is clear that the Forest Service believes and asserts that electricity which non-negligently causes a fire is surely a minute factor in the forest fire problem. As a matter of fact, on August 4, 1968, on Channel 7, Los Angeles, in the early evening, the Forest Service sponsored a commercial in which the speaker said, "Nine out of ten forest fires are caused by your carelessness. Be careful with fire in the national forest."

We submit that it is a false quantity to contend that electricity as such is a high hazard to the forests. It is manifestly not, on the basis of the Forest Service's own assertions. The distribution and transmission of electricity is not a high hazard to the forests and no matter how many times the Forest Service says it is, it is not. Further, the Forest Service cannot call to its aid the doctrine of consistent administrative interpretation because they themselves use the fact that carelessness is the essential cause of fires. The statement that twenty-five percent result from incendiarism can be reconciled. Out of 100%, 25% are caused by in-

cendiarism and of the remaining 75%, 90% are caused by negligence. At most this leaves seven and one-half percent for all other causes including a minute portion for non-negligent electric transmission. Is this a "high hazard?" We were not negligent in fact and by stipulation and according to the statement of the very attorney for the Government in the very transcript here. We should not be required to pay without the right to present our case, which, incidentally includes a strong case on contributory negligence, assumption of risk, and implied consent.

### III.

#### **The Contract.**

We have already argued this point at length in our opening brief, pages 13-18. We will not repeat the arguments here. They seem not to have been answered at all, except perhaps by saying that Edison did not have to enter into the contract. We submit that, in principle, that this is like saying that a Negro child does not have to attend school at all if he does not want to attend a segregated school. The Southern California Edison Company, as is judicially known, is an electric utility which must serve the consumers in its prescribed area who desire to buy electricity from it. It functions under Certificates of Public Convenience and Necessity. The Federal ownership of lands in the Western States is such that one cannot, except by magic, convey electricity from the sources thereof in the High Sierra, at Boulder Dam, or at Four Corners, to the millions who need the electricity in Southern California without crossing public land and, practically, without crossing Forest Service lands.

In connection with this phase of the brief we think two subordinate points ought to be mentioned:

1. The "words" of the contract are not of themselves controlling. The intent of the contract is. "Mystic incantations familiar to the ancient Egyptians



and Totemistic names in medieval Turkish” do not now matter.

*Pacific Gas & Electric Co. v. G. W. Thomas Drayage & Rigging Co.*, (July 11, 1968) 69 A.C. 28, a nearly unanimous decision of the California Supreme Court written by Chief Justice Traynor.

2. The meaning of this contract can only be understood in light of the actions of the parties. Without repeating our arguments on why this contract did not impose liability in words (properly interpreted) it is sufficient to point out that:

A. By granting the motion for summary judgment, we were completely denied access to proof of the true meaning of the parties; and

B. It seems inconceivable that absolute liability would be imposed on the users of the national forest, absent coercion, whose use produces less than one percent of the forest fires.

The Government says orally and in writing, by widespread television commercial and by extended documents, that non-negligent fires are of no moment and yet, now, for the first time in fifty years, seeks to continue on the one hand its campaign against negligence and on the other say that negligence really does not matter; that those users of the forest, who are prosperous enough and are investor-owned must pay for every fire even though, admittedly, the fire occurred without its fault at all. The parties intended no such meaning.

Since this case was concluded in the District Court some time ago, there has come to our attention Emergency Directive No. 5 issued by the Forest Service as of June 30, 1968. The document bears number 2710, is 79 pages long and was signed by M. M. Nelson, who is apparently Deputy Chief of the Forest Service.

This booklet contains a new method of calculating the rents paid by users of the forest (not including electrical transmission or distribution lines, however). The users covered are ten businesses; namely, grocery stores, snack bars and carryout food facilities, automobile repair and servicing organizations, general merchandise stores which sell such things as fish bait, hunting equipment, souvenirs and gifts, liquor stores, including bars and cocktail lounges, outfitter guides, when associated with resorts or dude ranches, lodging providers, where there is room service, cabin renters, and a miscellaneous group including trailer courts, trailer renters, horse renters, barber shops, boat gasoline and oil sellers, dockers and moorers, and last, but not least, pool hall operators. (Forest Service Manual [Emergency Directive No. 5] June 30, 1968, pp. 2710-6 and 2710-7). By this manual all of these parties are assured an income.

The Government's fees turn on whether they make a profit or not. If an unusual development occurs, such as a forest fire, a reduction in the fees paid to the Government is permitted. In other words, this booklet at least provides that the operator breaks even. If not, his rental is lowered. The inevitable effect of forest fires is conceded and the loss therefrom is allowed to reduce the Government's rent. (Emergency Directive No. 5 of June 30, 1968, pp. 2710-3 and 2710-17). We cannot, because of cost, duplicate this entire 79 page manual as an appendix to this brief, but we will, upon request of our opponent, who issued the directive, or upon request of the Court, lodge with the Court the only copy that we have. Perhaps upon the Court's request, the Government will furnish the Court with an appropriate number of full copies. We attach as Appendix C a copy of the title pages and pages cited herein.

It would seem that the Southern California Edison Company, a certificated seller, transmitter and distributor of electricity under Certificates of Convenience and

Necessity, ought to be at least treated as well in its use of the national forest as the operator of a cocktail lounge, liquor store or a pool hall.

Is it equal protection to demand damages from one citizen for a fire over which he has no control but lower the rents of another when he suffers from the same *force majeure*?

#### IV.

#### Constitutionality.

Our argument in the opening brief in this matter, from pages 18-33, was based on several propositions, none of which seem to be answered in the Brief of the United States and, in fact, seem to be conceded, or go unnoticed, in large part.

1. The point that absolute liability was not imposed upon publicly-owned utilities, although it was on investor-owned, and that this was unconstitutional. We argued that the Government itself recognized the illegality of such an interpretation of the statutory powers of the Forest Service when they themselves stated to their employees that it was beyond the authority of state, county or municipal officials to bind themselves to unlimited liability (Opening Brief, p. 19). Yet, it is manifest that if the Government had the constitutional right so to interpret the law, the public officials would have to obey it by reason of the Supreme Law of the Land clause. We cannot find that this argument was even mentioned in plaintiff's brief. If we have overlooked it, the mention is so subtle as wholly to escape us. At least in the index to the Brief of the United States, Article Six of the Constitution is never mentioned.

2. The point that equal protection is a part of due process, as has most recently been proclaimed in the segregation cases (*Bolling v. Sharpe*, 347 U.S. 497; and *Brown v. Board of Education*, 347 U.S. 483).

The only rebuttal to this doctrine seems to be, in the Government's mind, that the Fifth Amendment has no equal protection in words. We do not argue that there may not be a reasonable ground for classification. What we do argue is that we have never had a chance to moot this issue. The Court said:

"Let me say about the Constitutional argument that it is in my opinion not substantial and not valid. This is not a Constitutional argument of merit and defendant has cited no authority and therefore the offered evidence in the affidavits would be irrelevant and immaterial." [R. Tr. p. 23].

Thus, the Court having ruled that our Constitutional argument, *a priori*, was insubstantial, invalid, irrelevant and immaterial, it was unnecessary to look to the facts at all. We do not construe the power of the Court to grant summary judgment to be this wide. In light of the historical analysis hereinafter contained one cannot seriously argue that the equality [not identity] required by the principle of equal protection is not a limitation upon the Federal Government under the due process clause.

3. The point that the Government does not have absolute power over its land.

It does not seem conceivable that in 1968 the Attorney General of the United States would argue that the power of the Government over federal land is unfettered, absolute and plenary. Yet, conceivable or no, this is exactly what the Government has done.

(a) "The United States is not required, if it bestows a bounty or permits the use of its property, to refrain from imposing any conditions or limitations." (Government's Brief, pp. 5 and 6). "The power to grant or withhold privileges comprehends the power to impose *reasonable* conditions." (p. 6). This sentence must

have been inserted by error, for it does recognize that the granting of privileges is limited by the imposition of *reasonable* conditions (Emphasis added). This is, in fact, the law. The difficulty here is we have not been permitted to offer proof that the conditions are unreasonable.

(b) "Having agreed to assume absolute liability for electrically caused fires, and having accepted the benefits of the right of way permit, Edison is now estopped from resisting enforcement of this agreement by asserting that the agreement is invalid on the basis of alleged unconstitutionality." (p. 6). We have never heard of estoppel to assert a constitutional right. Gideon tried his case without counsel (*Gideon v. Wainwright*, 372 U.S. 335, 83 S. Ct. 792, 9 L. ed 2d 799). Was he estopped to assert his constitutional right to freedom? Many prisoners seek parole after an unconstitutional conviction. After denial are they estopped on *habeas corpus*? This is a mere restatement of the doctrine of unconstitutional conditions. In the Government's brief, Part II, pages 17-19, it is argued that defendant, having bargained for the right to use the national forest, is now estopped to claim that any of the conditions of its contract are unconstitutional. It would hardly seem that at this late date the Attorney General would argue in favor of the doctrine of unconstitutional conditions.

If there is an established principle of American Constitutional Law, it is that neither the executive nor the Congress, nor any administrative authority created thereby can impose what would otherwise be an unconstitutional condition by exacting from a promisor an agreement so to act. The doctrine has been used to avoid all kinds of contracts; for example, contracts with public utilities whereby they bind themselves in advance to an unconstitutional condition to obtain favorable ac-



tion in obtaining a certificate of convenience which would otherwise not be granted by a utility or railroad commission. The early cases on the subject seem principally to be:

*People, etc. v. Public Service Commission of New York*, 264 N.Y. 17; 189 N.E. 764, where the Court, speaking through Judge Lehman, voiced a contract saying,

“It cannot make its (the Public Service Commission’s) consent dependent upon conditions which are unreasonable or which do not change the terms of the transfer of the franchise, works, or systems, or which encroach upon the right of the relator to administer its corporate affairs according to its own judgment in matters in which the Legislature has not given the Public Service Commission any regulatory or supervisory powers.”

*Lockport Light, Heat & Power Co. v. Maltby*, 257 App. Div. 11; 12 N.Y.S. 595, where the Court said:

“The power of the Commission was not increased through the acceptance of the conditional order by the vice presidents of petitioners. Property and constitutional rights could not be destroyed, abrogated or waived by the corporations’ officers.”

The United States Supreme Court passed on the matter in *Frost v. Railroad Comm. of California*, 271 U.S. 583. There the Court held that the state could not bring about a result by imposing an unconstitutional requirement as a condition precedent to the enjoyment of a privilege which [it was assumed] to be within the power of the state altogether to withhold if it sees fit to do so.

“[In imposing such an unconstitutional condition in a contract] *in reality, the carrier is given no choice, except a choice between the rock and the whirlpool,—an option to forego a privilege which*

*may be vital to his livelihood, or to submit to a requirement which may constitute an intolerable burden."* (Emphasis added.)

Approving *Frost* are, among others,

*Williams v. Standard Oil Co.*, 278 U.S. 235;

*U.S. v. Chicago etc. Ry.*, 282 U.S. 311;

*Garrity v. New Jersey*, 385 U.S. 493;

*Harmon v. Forssennius*, 380 U.S. 528 (per Warren, C. J.).

See also

73 *Harv. L. Rev.* 1595, 99-00.

Of course, the recent classic in this area is *Shelley v. Kraemer*, 334 U.S. 1. In that case thirty owners of real property in St. Louis signed a contract providing that for fifty years from the date of the contract no part of their land should be occupied by a person not of the Caucasian race, "it being intended hereby to restrict the use of said property for said period of time against the occupancy as owners or tenants of any portion of said property for resident or other purpose by people of the Negro or Mongolian Race."

This contract had, in substance, been upheld by earlier cases and the *Civil Rights Cases*, 109 U.S. 3, had held that the Fourteenth Amendment erected no shield against wrongful or discriminatory private contract. In Mr. Chief Justice Vinson's opinion, the Court held this contract void and held that any condition or covenant of the discriminatory effect intended or effected by the quoted words was violative of the Constitution and a denial of due process of law and the privileges and immunities of citizens of the United States. It is interesting to note that *Yick Wo v. Hopkins*, 118 U.S. 356, which we have cited elsewhere, was one of the support-

ing opinions in the *Shelley* decision. We submit that not a whit of validity is added to the Government's case by the fact that we, under coercion, agreed to pay for a fire for which we were not liable (if we did). The basic concept is that it is contrary to manifest fairness to make one electric public utility pay for a non-negligent fire and let another off without a *scintilla* of penalty therefor.

(c) "The unfettered power of Congress to dispose of the public lands is beyond the reach of the other branches of the Government." (p. 9). We had supposed that we had a checks and balance system and that no branch of the Government was supreme over the others. The citations do not support the position. All they support is that things which reasonably should not be done are properly prohibited to users of the forest. The list beginning at page 9 and extending through page 10 almost without exception says this and nothing more. The recent cases cited in our opening brief, which apparently are agreed to by the Government because they have cited the same cases, establish beyond doubt that the Government's rulings in this matter must be based upon reasonable grounds and therefore must stand the test of Constitutional due process. See particularly *Ivanhoe Irrigation District v. McCracken*, 357 U.S. 275. We do not gainsay Mr. Justice Holmes that forest fires are one of the great economic misfortunes of the country and that California, having forests and, frequently, hot weather and low humidity, is an especially bad place for forest fires, but to blame a party, stipulated to have been without fault, for a forest fire is shocking. We do not deal, incidentally, here with any of the traditional areas of absolute liability, such as wild



animals or explosives. Even a presumption of negligence as applies to carriers is a rebuttable presumption. In the Warsaw Convention a party before being held to absolute liability has a day in court to show that he was not at fault. Here it is agreed that we were *not* at fault, yet the day in court is not ours.

(d) We devoted about six pages of our brief (pp. 27-32, inclusive), to the doctrines of what we called the *Perko* cases; namely, *United States v. Perko*, 133 Fed. Supp. 564; *United States v. Perko*, 108 Fed. Supp. 315; *Perko v. U.S.*, 204 F. 2d 446, cert. denied, 346 U.S. 832; *Perko v. Northwest Paper Co.*, 133 Fed. Supp. 560; *United States v. Perko*, 141 Fed. Supp. 372; and *Bydlon v. U.S.*, 175 Fed. Supp. 891. These cases, which were collectively one of the cornerstones of our argument, appear to have been completely ignored by the United States except in a footnote on page 22 of the Government's brief. It may have been good strategy to ignore the *Perko* cases, and inaccurately to state of them that they are "intimations culled from *dicta*" but we submit this sort of briefing does not aid the Court at all. In the footnote the Government states that the doctrine of these cases is "unexceptional." That is all that is said except for a suggestion that we should not have agreed to use the national forest if we did not like to use it on the terms of the Government's proposal.

(e) The quotation from the 147 year old decision, *McChung v. Silliman*, 6 Wheat. 598 (1821) is at least owed respect because of its age, but to make the statement, "The Government's power of disposal is absolute," and to try and support it by the Constitutional quotation from Article 4, Section 3, or the *Silliman* case in these days is without reason. Surely no one seriously contends today that the right to dispose of real property is unfettered, no matter who the "owner" is!

To say that Congress may take such steps as it deems necessary to protect the public land, by preventing unauthorized mining, fencing or use by unauthorized persons for illegal means; to say that it may punish adjoining land owners for leaving fires on private lands which may imperil the public forests; to say that the Government may limit the amount of acreage which a single land owner can obtain are commonplaces not relevant to the present problem. Although we were criticized for putting hypothetical cases by the District Court, we take one more risk here: Does the Government argue that it could issue a contract for use of the public land for transmission of electricity to a corporation which has no Negro shareholders on more favorable terms than it could grant the same right to an organization of which ten percent of the equity is owned by Negroes, or twenty percent or one hundred percent? It is, we submit, as unseemly as it is erroneous to argue with the one hand against discrimination when minorities are involved, but for it when big, investor-owned public utilities cross the television screen.

We do not contend that the statutes are unconstitutional. We contend, as did *Yick Wo*, (118 U.S. 356, 6 S. Ct. 1064, 30 L. ed. 220) that the application and interpretation of the statutes in exacting the contract here in force is unconstitutional.

## V.

### Due Process of Law.

We devote this section of our brief to the basic establishment of the fact that first, due process requires equality; second, that the due process clause applies to the Federal Government, and historically and primarily equality of treatment of persons in equal place has always been the cornerstone of our jurisprudence. We beg the Court's indulgence briefly to trace the historical

development of due process of law and the reasons why in this case the Government cannot, even if the contract in words were to so prescribe, treat the Southern California Edison Company differently than it treats its sister transmitters and distributors of electricity, the owners of which are not stockholders, but are ratepayers or municipal corporations.

As far back as the days of Hammurabi equal rank required equal treatment. In this primeval period of the development of civilized law men of disequal rank could be treated disequally, but the basic concept of equality of treatment by the government was never more clearly put. Article 200 of the Code of Hammurabi may be compared with Articles 201 and 202, and a similar comparison can be noted in other articles. In Appendix D of this brief there is set forth a copy of Articles 200 to 205, inclusive, of the Code of Hammurabi (B.C. 2285-2242) and the barest study will show this ancient law to have been founded upon the very principle of equality for which we contend in 1968.

Davies, *The Codes of Hammurabi and Moses* (1905) 86-87.

There may have been earlier written laws, but Hammurabi's Code is generally believed to be the oldest code of laws thus far discovered by archaeologists or scholars.

Johns, *The Oldest Code of Laws in the World. The Code of Laws Promulgated by Hammurabi, King of Babylon, B.C. 2285-2242* (1903) pp. 42-50.

See also

Driver and Miles, *The Babylonian Laws* 56-7. (Reprint Edition 1956).

In terms of years, it is a long time from Hammurabi to King John, but in spirit, the distance be-

tween Hammurabi's Code and the Magna Carta is short indeed. In Magna Carta is found the famous Article 29. "The no free man" clause, identified by its first three Latin words, *nullei liber homo*. Article 29 reads:

"No free man (*nullei liber homo*) shall be taken or imprisoned or deprived of his freehold or his liberties or free customs, or outlawed or exiled, or in any manner destroyed, nor shall we come upon him or send against him, except by a legal judgment of his peers or by the law of the land [*per legem terrae*]."

Pickering, *The Statutes at Large from Magna Carta to the End of the Eleventh Parliament of Great Britain* (1761-2);

and see

*The Constitution of the United States of America, Annotated* (1964) 953.

The words "due process of law" are in themselves not used in Magna Carta. It was Coke who rendered the words "the law of the land" (*per legem terrae*) into due process of law on the basis of intervening statutes. The meaning, however, of the words was the same in both of the authorities, as is consistently set out by all of the leading writers.

McKechnie, *Magna Carta, A Commentary on the Great Charter of England with a Historical Introduction* (1914) 3-47.

See also

*The Constitution of the United States of America Annotated*, at 959-960.

It was not long after Magna Carta when the guarantee was made even more firm. In 1354 Edward III re-affirmed the doctrine of due process of law, using the words themselves.

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“That no man of what estate or condition that he be, shall be put out of land or tenement, nor taken nor imprisoned, nor disinherited nor be put to death, without being brought in answer by due process of the law.”

Pickering, *The Statutes at Large from the Fifteenth Year of King Edward III to the Thirteenth Year of King Henry IV, Inclusive* (1762) 97.

Thus fortified by ancient statutes, the matter was considered almost over a whole lifetime by Sir Edward Coke. We suppose it is not necessary really to establish Coke's eminence, but the coincidence of one of his government offices and his general influence and eminence is so great that some mention should be made when the doctrine he so importantly championed is the basis of this brief. Catherine Drinker Bowen said:

“Sir Edward Coke never set foot on American soil. Yet no United States citizen can read his story without a sense of immediate recognition. In these parliamentary struggles, knights, citizens and burgesses fought not for themselves alone but for states as yet unformed: Pennsylvania, Virginia, California. In Westminster courtroom battles over procedure, jurisdiction, ‘right reason and the common law,’ constitutional government found its way to birth. When the time came we changed the face of this English constitution; amid the sound of guns we repudiated what we hated, adapted what we liked. Yet the heritage endured.”

Bowen, *The Lion and the Throne, The Life and Times of Sir Edward Coke* (1956) Page X.

Coke continually relied upon the earlier precedent to establish the absolute requirement that the govern-

ment treat all of its citizens equally within, of course, the limitations of the common law. Of course he did not contend, nor do we contend, that every person must be treated identically, rather that they be treated equally.

Thus it is clear that the Government may require a citizen to pay a dollar to enter Yellowstone National Park for a weekend of camping and that it can prohibit another citizen who does not pay the dollar from entry. The two citizens are not treated identically, by they are treated equally. There is reasonable ground for admitting the one and refusing the other. In this case, however, we are confronted with a government which says to a privately owned electric utility company, "You cannot use the national forest for transmission or distribution lines unless you agree to be absolutely responsible for a fire even though it is not your fault," and at the same time says to another electric utility company using the forest in the same way, sometimes, in fact, on the same lines, but which utility is owned by its customers or by some local governmental authority, "You may use the national forest without assuming any liability except that of acting prudently; that is, without negligence. In fact, you could not agree to do anything more and that is one of the reasons we are allowing you to use the forest on these easy terms while requiring the harsh burdens of your competitor." We submit that the utter absurdity of such a rule can be no more clearly demonstrated than by a recent development which occurred, apparently since the judgment in this case.

We refer this Honorable Court to the Wall Street Journal for June 28, 1968. The article is reprinted in Appendix E to this brief and it is illustrated by the maps set out as Appendices F and G. It will be noted that a Rural Electrification Administration supported, consumer-owned public utility (one of the kind which only must assume the burden of reasonable care to use the national forest) purchased a one-half undivided in-



terest in a plant and its accessories at Steubenville, Ohio, which facilities were owned by a privately-owned public utility. This plant has lines which conduct the electricity manufactured there across the Wayne National Forest. We wonder now what the rule of liability is as to a fire caused by the electricity of this plant on the national forest land, without negligence. Is it deemed that the innocent REA electrons caused the fire so there is no liability, or is it the evil-hearted electrons of the private power company, or perhaps one can apply the admiralty rule and divide the damages and say there is absolute liability but one for half the damages, or perhaps some meter can be devised by the Forest Service which will, in a new fashion, bifurcate the electron and we will know which half, the private half or the public half, really caused the fire.

The District Court, of course, said in its opinion that since the Constitutional argument was irrelevant, it was unnecessary to look at the facts as to whether it was true. The argument lacking validity, as the Court said, the truth was irrelevant and immaterial [R. Tr. pp. 23-4].

The simple fact is that the transmission or distribution of electricity rarely causes a forest fire. Probably something less than one percent of all forest fires are so caused, and of that miniscule portion, only a still smaller portion are caused by the negligence of the line operator. To try to develop from this fact a doctrine that the ordinary rule of negligence should not apply but that a coerced contract should be relied on to establish a doctrine of absolute liability seems to us wholly inconsistent with the enlightened thoughts of an enlightened age.

To return to the historical development, the doctrine that the more important the man the greater should be the punishment [which, in substance, is what

the Government contends for in our case] was the doctrine of the Star Chamber and the doctrine which Coke so greatly resented and so completely rejected.

Bowen, *op. cit.* 108-109.

He consistently argued, maintained and drove English justice to accept the concept that equality was the rule of law and that the government must treat equals equally. Relying on Chapter 39 of Magna Carta, the statute of Edward, and his own Petition of Right, Coke evolved the doctrine that this concept was not a matter of grace or privilege but a requirement upon the king. No doctrine is more firmly embedded in American Law.

Bowen, *op. cit.* 490, 494-504, inclusive.

By the time of the establishment of our government the founding fathers, and especially the lawyers among them, well understood the doctrines upon which comment has just been made. Mr. Justice Story, Colonel John Rutledge of South Carolina, Chief Justice John Jay, John Quincy Adams, Thomas Jefferson, almost every name which we now revere, can be found in the list of those who said that Coke's principles were the principles upon which the American government and the meaning of our Constitution were founded.

Bowen, *op. cit.* 513-515.

And the doctrines were especially commended to the legal profession. Thomas Jefferson said:

"Coke Lyttleton was the universal elementary book of law students and a sounder Whig never wrote nor profounder learning in the orthodox doctrines of British liberties. . . . But when his black letter text and uncouth but cunning learning got out of fashion, and the honeyed Mansfieldism of Blackstone became the student's book, from that moment that profession (the nursery of our Congress) began to slide into Toryism."

See 1 Warren, *History of the Harvard Law School* (1908) 139.

Coke was clear that Magna Carta meant that penalties should not be inflicted nor property taken without due process of law. They could not merely be taken because the law said so.

Bowen, *op. cit.* 517.

Lord Coke died in 1634. He died before the founding of Harvard University and yet his words are as alive today as they were on the day of their utterance, and it seems to us oddly appropriate that in this case of forests and public lands we are able to rely upon a man who was not only Solicitor General to Queen Elizabeth, Speaker of her Parliament and Her Attorney General, Attorney General to King James, Privie Counsellor to Queen Anne, Chief Justice of all the Benches of England, and, above all else, the most Honorable Caretaker of Her Majesty's Forests, Chases and Parks.

Bowen, *op. cit.* 535-536, quoting the inscription upon Coke's tombstone.

Following the historic principles, our courts have continued to announce the doctrine for which we contend, and that is that due process of law prevents the Forest Service from acting as it has in the instant case and prevents the court from granting a summary judgment before we have the right to show by proof and by facts judicially noticed that there is here no reasonable ground for distinction between the private power company and the public one, that both should be responsible for their carelessness and neither for accidents which occur without fault.

The concept of equality as an essential of due process and of constitutionally permissible government continued as part of the fundamental law of the United States in the period following the adoption of the

Constitution in 1789. In 1856 *Murray's Lessee v. Hoboken Land & Improvement Co.* was decided (18 How. 272). The Supreme Court decided that the due process clause of the Fifth Amendment was a restraint on Congress as well as on the executive and judicial powers of the national government and that Congress is not free to make any process it chooses "due process" nor are the executive or judicial branches of the government. In the *Sinking Fund Cases*, 99 U.S. 700, it was held that the due process clause applied to all persons within the United States, including corporations. The Fifth Amendment, as the Fourteenth, is tolerant of legislative classifications but condemns those that are arbitrary and unreasonably discriminatory.

*Steward Machine Co. v. Davis*, 301 U.S. 548;

*Detroit Bank v. U.S.*, 317 U.S. 329.

Systematically, the Supreme Court has condemned federal action that is unreasonably discriminatory and the results arrived at have been just as faithful to the concept of equality as the cases which involve an interpretation of discriminatory action by the states under the Fourteenth Amendment. The cases are well collected in the Annotated Constitution of the United States.

See *United States Constitution Annotated*, *supra*, pages 973-975.

Perhaps the most recent language is that of *Bolling v. Sharpe*, 347 U.S. 497, which we cited in our opening brief, where the court said, "It would be unthinkable that the same Constitution would impose a lesser duty on the Federal Government." Here the court held that the Federal Government could not discriminate so as to segregate Negro school children in the District of Columbia. We submit that no more need be said on this issue and that any argument or effort by the Government to contend that unreasonable discrimination in the use of federal land is not for-

bidden to the Federal Government and to its administrative and executive officers is bound to fail.

The recent text writers have been equally clear. We do not wish to extend this brief unnecessarily and so will refrain from citing in detail from the following authorities, each of which we think establishes beyond question that the requirement of equality and freedom from unreasonable discrimination on the part of citizen and government alike is a Constitutional *sine qua non*.

Warsoff, *Equality and the Law*, 13-21, 42-47, 158-167; 224-225, 282-283, 306-307;

Mott, *Due Process of Law*, 36-37;

Thorne, *Sir Edward Coke*, 10-12;

Bodenheimer, *Due Process of Law and Justice*, in *Essays in Jurisprudence in Honor of Roscoe Pound*, 463-484.

In commenting upon our Constitution and the antecedent historical documents, Professor Warsoff says:

“When the authors of the Declaration of Independence included in that document the ‘self-evident’ principle that all men are created equal, they were but affirming the belief upon which both the Revolution and the Republic were founded. (Warsoff, *op cit.*, 19) Never was a government more earnest in its desire to secure to all its people the equal protection of laws.” (*Ibid.*)

Samuel E. Thorne, Professor of Legal History at Harvard and some time Professor of Legal History at Yale, said in 1957 in one of the most learned recent lectures on Coke that in promulgating the petition of right, Coke intended the due process clause to apply *principally* as a limitation on the national government (Emphasis added). This hardly seems consistent with the Government’s stress on what it claims are the unrestricted, virtually divine powers of the National Government when dealing with the national forests.

Thorne, *op. cit.*, 9-13, inclusive.

Bodenheimer and Mott both emphasize at length the applicability of the due process clause to the Federal Government and the fact that the equal protection clause was always thought of as part of due process long before the modern cases proclaimed that to be the fact, as cited in our opening brief.

Perhaps the most recent words, are those where Mr. Justice Fortas teaches us:

“The Constitution of the United States is a law for *rulers* and people . . . and covers with the shield of its protection all classes of men at all times and under all circumstances.”

Fortas, *Concerning Dissent and Civil Disobedience* (May 1968) 20.

It cannot then be doubted that we had the right to present our case and to prove, if we can, that which we showed by offer of proof and affidavit and that which is additionally available that there was no sense whatever in requiring us to assume an obligation absolute in nature while at the same time only the ordinary duty of due care was required of our publicly-owned competitors and to prove we are treated unequally in a Constitutional sense in our use of the National Forests.

## VI.

### Conclusion.

In a nutshell, we submit the time has come when Constitutional rights are afforded to everyone. We do not say for a moment that the downtrodden, the poor, the non-white, the innocent man unconstitutionally accused or convicted is not entitled to all of the advantages of the Bill of Rights. But, the Bill of Rights is not protection for the poor alone. It is protection for the



rich, it is protection for the lucky, it is protection for the large corporation, it is protection for he who is viciously competed against. It is and must ever be the last best Constitutional resort of all.

We were not afforded a trial here. We have been adjudged to pay for a forest fire, a tragedy visited upon all our people, without our fault. We have been selected to bear this loss simply because we were there. Being convenient, we were guilty. This ought not be and we zealously contend it is not the product of American Constitutional law.

Respectfully submitted,

RICHARD T. DRUKKER,

ROLLIN E. WOODBURY,

HUGH B. ROTCHFORD and

CHASE, ROTCHFORD, DRUKKER &  
BOGUST,

By RICHARD T. DRUKKER,

*Attorneys for Appellant Southern  
California Edison Company.*







## APPENDIX A.

### Chronological List of Authorities in Appellee's Brief.

Serial No.	Brief Page	Authority <sup>4</sup>	Date of Decision or Authority
1.	16	Ethelbert, King of Kent	c.598 [A.D.]
2.	16	Alfred the Great	c.877 [A.D.]
3.	7	<i>McClung v. Silliman</i> , 6 Wheat. 598	1821
3A.	8	<i>U.S. v. Gratiot</i> , 14 Pet 526	1840
4.	9	<i>U.S. v. Gear</i> , 3 How. 120	1845
5.	8	<i>Homestead Act of 1862</i>	1862
6.	8	<i>Gibson v. Chouteau</i> , 13 Wall. 92	1872
7.	19	<i>Daniels v. Tearnay</i> , 102 U.S. 415	1880
8.	16	Wigmore, <i>Responsibility for Tortious Acts</i> , 7 Harvard Law Review 441	1894
9.	16	1 Pollock & Maitland, <i>History of English Law Before the Time of Edward I</i>	1895
10.	22	<i>St. Louis &amp; San Francisco R'y v. Mathews</i> , 165 U.S. 1	1897
11.	17	<i>Jones v. Brim</i> , 165 U.S. 180	1897
12.	9	<i>Camfield v. U.S.</i> , 167 U.S. 518	1897
13.	2	<i>The Organic Administrative Act of June 4, 1897</i> , 30 Stat. 35; 16 U.S.C. 551	1897
14.	22	<i>Atchison, Topeka &amp; Santa Fe R.R. v. Matthews</i> , 174 U.S. 96	1899
15.	13	<i>Boske v. Comingore</i> , 177 U.S. 459	1900
16.	2	<i>Act of February 15, 1901</i> , 31 Stat. 790, as amended; 16 U.S.C. Section 522	1901
17.	17	<i>Chicago, R.I. etc. Ry. Co. v. Zernecke</i> , 183 U.S. 582	1902
18.	9	<i>Van Lear v. Eisele</i> , 126 Fed. 823	1903
19.	8	<i>Butte City Water Co. v. Baker</i> , 196 U.S. 119	1905
20.	16	Ames, <i>Law and Morals</i> , 22 Harvard Law Review 97	1908
21.	9	<i>U.S. v. Grimaud</i> , 220 U.S. 506	1911
22.	3	<i>Act of March 4, 1911</i> , 36 Stat. 1253, as amended; 16 U.S.C. Section 523	1911
23.	21	<i>Ohio Tax Cases</i> , 232 U.S. 576	1914
24.	16	Smith, <i>Tort and Absolute Liability</i> , 30 Harvard Law Review 241, <i>et seq.</i>	1916

Serial No.	Page Brief	Authority <sup>4</sup>	Date of Decision or Authority
25.	17	<i>N.Y. Central Railroad Co. v. White</i> , 243 U.S. 188	1917
26.	8	<i>Utah Power &amp; Light Co. v. U.S.</i> , 243 U.S. 389	1917
27.	19	<i>Wall v. Parrot Silver etc. Co.</i> , 244 U.S. 407	1917
28.	8	<i>Ruddy v. Rossi</i> , 248 U.S. 104	1918
29.	23	<i>Crescent Oil Co. v. Miss.</i> , 257 U.S. 129	1921
30.	10	<i>Southern Pacific Co. v. Olympian Co.</i> , 260 U.S. 205	1922
31.	21	<i>Heisler v. Thomas Colliery Co.</i> , 260 U.S. 245	1922
32.	16	2 Holdsworth, <i>History of English Law</i> , (3rd ed.) 51	1923
33.	19	<i>Booth Fisheries Co. v. Industrial Comm.</i> , 271 U.S. 208	1926
34.	11	<i>Fox River Co. v. R.R. Comm.</i> , 274 U.S. 651	1926
35.	22	<i>Hayman v. Galveston</i> , 273 U.S. 414	1927
36.	20	<i>Buck v. Bell</i> , 274 U.S. 200	1927
37.	10	<i>U.S. v. Alford</i> , 274 U.S. 264	1927
38.	11	<i>Aetna Ins. Co. v. Hyde</i> , 275 U.S. 400	1928
39.	21	<i>Louisville Gas Co. v. Coleman</i> , 277 U.S. 32	1928
40.	10	<i>Hunt v. U.S.</i> , 278 U.S. 96	1928
41.	15*	<i>Kennedy v. Minarets etc. Co.</i> , 90 Cal. App. 563 (See fn. 2)	1928
42.	21	<i>Corp. Comm. v. Lowe</i> , 281 U.S. 431	1930
43.	13	<i>O'Gorman &amp; Young, Inc. v. Hartford etc. Co.</i> , 282 U.S. 251	1931
44.	21	<i>Tax Commissioner v. Jackson</i> , 283 U.S. 527	1931
45.	17*	<i>Crowell v. Benson</i> , 285 U.S. 22 (See fn. 1)	1932
46.	21	<i>First Nat. Bank v. Tax Comm.</i> , 289 U.S. 60	1933
47.	21	<i>Puget Sound Co. v. Seattle</i> , 291 U.S. 619	1934
48.	24	<i>Spokane International Ry. Co. v. U.S.</i> , 72 F. 2d 440	1934
49.	13	<i>Pacific States Co. v. White</i> , 296 U.S. 176	1935

Serial No.	Brief Page	Authority <sup>4</sup>	Date of Decision or Authority
50.	13	<i>Thompson v. Consolidated Gas Co.</i> , 300 U.S. 55	1937
51.	11	<i>Currin v. Wallace</i> , 306 U.S. 1	1939
52.	9	<i>Standard Oil Co. of Calif. v. U.S.</i> , 107 F. 2d 402	1939
53.	11	<i>U.S. v. San Francisco</i> , 310 U.S. 16	1940
54.	13	<i>Forbes v. U.S.</i> , 125 F. 2d 404	1942
55.	24	<i>U.S. v. Chesapeake &amp; O. Ry. Co.</i> , 130 F. 2d 308	1942
56.	20	<i>Detroit Bank v. U.S.</i> , 317 U.S. 329	1943
57.	24	<i>Chesapeake &amp; O. Ry. Co. v. U.S.</i> , 139 F. 2d 632	1944
58.	21	<i>Independent Warehouses v. Scheele</i> , 331 U.S. 70	1947
59.	7	<i>U.S. v. California</i> , 332 U.S. 19	1947
60.	18	<i>Tennessee Valley Authority v. Lenoir City</i> , 72 F. Supp. 457	1947
61.	24	<i>Ventura County v. Southern California Edison Co.</i> , 85 Cal. App. 2d 529	1948
62.	24	<i>Kleinclaus v. Marin Realty Co.</i> , 94 Cal. App. 2d 733; 211 P. 2d 582	1949
63.	10	<i>Federal Power Comm. v. Idaho Power Co.</i> , 344 U.S. 17	1952
64.	25	<i>U.S. v. W.T. Grant Co.</i> , 345 U.S. 629	1953
65.	16	<i>Prentiss v. National Airlines</i> , 112 F. Supp. 306	1953
65A.	18	<i>U.S. v. Wiselrod</i> , 202 Fed. (2d) 629	1953
66.	9	<i>Submerged Lands Act of 1953</i> , 67 Stat. 29; 43 U.S.C. 1301-1315	1953
67.	9	<i>Alabama v. Texas</i> , 347 U.S. 272	1954
68.	20*	<i>Brown v. Board of Education</i> , 347 U.S. 483	1954
69.	20*	<i>Bolling v. Sharpe</i> , 347 U.S. 497	1954
70.	22*	The <i>Perko</i> cases. Since counsel concedes that our analysis of the <i>Perko</i> cases is completely correct; (as he states) "Unexceptional," we will not mention them again, although we rather think they are not "dicta," since several hundred thousand dollars were awarded in favor	

Serial No.	Page	Authority <sup>4</sup>	Date of Decision or Authority
		of the Plaintiffs and against the U.S. on the basis of the rulings cited in our brief. In our argument we further discuss the <i>Perko</i> cases.	1955-59
71	10*	<i>Ivanhoe Irr. Dist. v. McCracken</i> , 357 U.S. 275	1958
72.	25	<i>Gramm v. Lincoln</i> , 257 F. 2d 250	1958
73.	25	<i>Bruce v. Travelers Ins. Co.</i> , 266 F. 2d 781	1959
74.	12	<i>Best v. Humboldt Mining Co.</i> , 371 U.S. 334	1963
75.	18	<i>Ferry v. Udall</i> , 336 F. 2d 706	1964
76.	13	<i>McMichael v. U.S.</i> , 355 F. 2d 283	1965
77.	15*	<i>Annual Fire Report for the National Forests</i> , U.S. Department of Agriculture, p. 3; Table 3, p. 1	1966

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\*Authority first cited in Appellants' Opening Brief.

<sup>1</sup>Of course, workmen's compensation revenues are not absolute liability; for example, a drunken workman cannot recover. Secondly, they are wholly statutory in source and did not exist at common law; in fact, at common law a laborer could not even sue his employer.

<sup>2</sup>In this case the court specifically refused to impose absolute liability and awarded treble damages for negligence under a statute.

<sup>3</sup>All this report is cited for is the fact that fires represent a major threat to forests, that they are one of the great economic misfortunes of the country, that between 1961 and 1965 11,702 forest fires annually burned an average of 138,868 acres; that in 1966 the number of acres burned was 332,921; that in California forest fires are particularly destructive; that the damage to California (from something, presumably forest fires) was 7,942,200 and was nearly six times that of the next state, Idaho.

<sup>4</sup>The foregoing 79 authorities may be divided into age-periods by number and percentage, about as follows:

Before 1700	2	2.5%
Between 1700 and 1900, incl.	14	17.7%
Between 1901 and 1920, incl.	13	16.5%
Between 1921 and 1940, incl.	25	31.6%
Between 1941 and 1960, incl.	21	26.6%
After 1960	4	5.1%
Total	79	100.0%

## APPENDIX B.

### Negligence as a Part of English and American Law.

At Page 16 of the Government's brief the statement is made, "Since the times of Aethelbert and Alfred the Great *the doctrine of torts was that of absolute liability. Negligence was unknown to the law until some thousand years later.*" (emphasis added) Since Alfred the Great's rule ended in 899, this is equivalent to stating that negligence was unknown to our law until 1899. Statements of this nature, being, as they are, wholly inaccurate, are typical of the Government's brief and the same sort of wild claim permeates the entire document.

In fact, of course, negligence was clearly recognized at a very early date and accepted in principle as far back as the reign of Edward I and Richard II. It was commonly litigated in the time of Elizabeth I. The subject matter is discussed at length in 2 Jones, Blackstone, 1726-1728, where relevant citations are given.

William Carey Jones's Note to the later edition of Blackstone's Commentaries points out that:

"Negligence is defined to be the omission to do something which a reasonable man, guided upon those considerations which ordinarily regulate the conduct of human affairs would do or doing something which a prudent and reasonable man would not do."

This quotation is from *Blyth v. Birmingham Waterworks Co.* (1856) 11 Ex. 781.

This sophisticated definition, which would well serve today, is, of course, the culmination of hundreds of years of judicial analysis of the nature of the law of negligence.

2 Jones, Blackstone 1657, Note 10.

In 1 Parker's Digest of California Reports and Statutes (San Francisco, H. H. Bancroft & Co. 1869), the first digest of California law, as we are advised, the author digests the California negligence cases which had been decided in the Supreme Court of California in the first eighteen years of its existence. In that brief period sixteen cases involving negligence had already reached the highest court of California. These cases are listed below in this Appendix and clearly demonstrate that even in the most western of our states and in the earliest days of its existence, negligence was well entrenched as an important principle of our jurisprudence. In fact, in apparently the first case considered by the California Supreme Court where the issue of negligence was involved, *Hallower v. Henley*, 6 Cal. 209, decided in April 1856, the precedents cited were 4 Metcalf 55 [*Farwell v. Boston & Worcester RR Corp.* (1842) 4 Met. 55, 45 Mass. 49], and 5 Exchequer 341 [*Mead v. Bashford* (1850) 5 Ex. 341; 155 Eng. Rep. 147]. All California negligence cases cited in Parker, *op. cit.* follow:

1. *Hallower v. Henley* (1856) 6 Cal. 209.
2. *James v. San Francisco* (1856) 6 Cal. 528.
3. *Finn v. Vallejo Street Wharf Co.* (1857) 7 Cal. 253.
4. *Hoffman v. Tuolumne County Water Co.*
5. *Wolf v. St. Louis Independent Water Co.* (1858) 10 Cal. 541.
6. *Fraler v. Sears Union Water Co.* (1859) 12 Cal. 555.
7. *Hastings v. Halleck* (1859) 13 Cal. 203.
8. *Whitney v. Butterfield* (1859) 13 Cal. 335.
9. *Jackson v. Feather River & Gibsonville Water Co.* (1859) 14 Cal. 18.

10. *Algier v. The Steamer Maria* (1859) 14 Cal. 167.
11. *Hull v. Sacramento Valley RR Co.* (1859) 14 Cal. 387.
12. *Todd v. Cochell* (1860) 17 Cal. 97.
13. *El Dorado County v. Elstner* (1861) 18 Cal. 144.
14. *Richmond v. Sacramento Valley RR Co.* (1861) 18 Cal. 351.
15. *Richardson v. Kier* (1867) 34 Cal. 63.
16. *Gay v. Winter, et al.* (1867) 34 Cal. 153.





## APPENDIX C.

2710

FOREST SERVICE MANUAL  
WASHINGTON, D.C.

EMERGENCY DIRECTIVE NO. 5

June 30, 1968

DISTRIBUTION: In-Service Holders of FSH-2700

CHAPTER: 2710 - SPECIAL USES

POSTING NOTICE: Last E. D. in 2700 is No. 4  
Post Following Chapter 2710, SPECIAL USES

THIS DIRECTIVE COVERS THE SETTING OF FEES FOR CONCESSION (COMMERCIAL  
PUBLIC SERVICE) SPECIAL USE PERMITS, by providing instructions for  
applying the Graduated Rate Fee System (GRFS).

The Graduated Rate Fee System (GRFS) will be used where appropriate  
after July 1, 1968, i.e.; in all new permits and in all existing  
permits where it is not precluded by the terms of the permit, except  
that the present system will continue to apply to existing winter  
sports permits.

This E.D., in booklet form, is being distributed to concession Per-  
mittees who responded to the July 10, 1967 Review Draft description  
of GRFS, and to other individuals, agencies and organizations with  
an interest in it.

Fee Calculation Worksheets - FS-2700-19 and FS-2700-20 are being  
sent directly to the Regions for distribution by the Lands Division  
to the Forests on the basis of need.



M. M. NELSON  
Deputy Chief

Note: The emphasis on Pages 2710--3, 2710--6, 2710--7  
and 2710--17 is ours.)



A GRADUATED RATE SYSTEM  
FOR SETTING FEES  
TO BE PAID BY HOLDERS OF  
NATIONAL FOREST CONCESSION PERMITS



FOREST SERVICE  
U.S. DEPARTMENT OF AGRICULTURE  
WASHINGTON, D. C.  
JUNE 1968

E.D. NO. 5  
6/30/68



PRINCIPLES OF THE SYSTEMOBJECTIVE

The objective of the Graduated Rate Fee System is to establish fees for National Forest concession Special Use Permits commensurate with the value of the use authorized by the permit. \*\*

PREMISES

The Graduated Rate Fee System is based on several fundamental premises. They are:

- the fees to be paid shall
  - afford a permittee of average operating efficiency an opportunity, under normal circumstances, to make a reasonable profit on his investment;
  - permit reasonable charges to National Forest visitors for goods provided and services rendered;
  - result in an equitable return to the Government for the use of the public land involved;
  - recognize a public need for the services and facilities authorized; and
  - be reasonably comparable to the rent paid by the industry as a whole for the same or similar kinds of businesses, but since the fees should reflect the public need for the services or facilities provided, they need not necessarily be all that a private landowner might charge.
- The investment that a permittee is willing to make in fixed assets in the development of a National Forest site, and the volume of business generated by that investment reflect the productivity of the site involved, and fees should be assessed accordingly.
- Concession sales may be greatly affected by weather\*\* and frequently by adverse natural forces such as slides, avalanches, fires, and floods. An equitable fee must reflect these fluctuations over which the permittee has no control.

\*\*

NOTE: FOR EMPHASIS ADDED THROUGHOUT THIS APPENDIX BY DEFENDANT)

E.D. No. 5  
6/30/68



in calculating a fee the breakeven point for a single business operation is used as established. In mixed business operations a weighted or composite breakeven point is calculated. This is accomplished by (1) multiplying the breakeven point established for each type of business by the percentage that this kind of business bears to the total business and (2) adding these percentages to arrive at the composite breakeven point. A work sheet makes this a simple arithmetic step. See page 49.

Winter sports operations are handled as a single integrated business. The breakeven point established is already a composite based on the study of winter sports operations used in developing the fee system.

The definitions of the 10 businesses are:

Groceries. Includes sales of items usually associated with grocery stores, such as staple foods, meats, produce, household supplies such as cleaning material, staple drug articles, etc. This item includes bottled soft drinks and beer when included in the grocery operation.

Service, Food. Includes meals, sandwiches, and other food materials prepared for carry-out or consumed on the premises. So-called snackbars are included here. It includes non-alcoholic drinks and beer sold in conjunction with food.

Service, Cars. Includes all kinds of articles and services used in servicing and repairing automobiles. Where no service station or garage business is operated as such and auto accessories are sold by a general store, such sales are included under General Merchandise.

General Merchandise. Includes clothing and hardware; also boat accessories, fish bait and tackle, hunting equipment and supplies, other sporting goods, souvenirs, gifts, and sales of licenses.

Service, Liquor. Includes all alcoholic drinks for consumption on the premises and other sales ordinarily a part of a bar or cocktail lounge business. Where a bar is operated in conjunction with a restaurant or overnight accommodations, liquor and beer sales are recorded and reported separately. Alcoholic beverages for consumption off the premises are also included in this item except as indicated in Groceries and Services, Food, above.





Outfitter-Guides. All activities or commercial guiding services involving back country travel regardless of mode of travel when associated with a permitted resort or dude ranch. All service charges are considered sales.

Service, Room. Includes all income for lodging where daily room service is furnished. Income from furnished cabins and cottages that do not receive maid service is reported under Rentals, Cabins.

Rentals, Cabins. Includes income from rental of furnished or unfurnished cabins, cottages, housekeeping rooms, condominiums, motel units, etc., where daily maid service is not furnished by the permittee.

Rentals, Other. Includes all revenue from rental of camping space, improved or otherwise; trailer courts; trailer, boat and other equipment rentals; horse rentals, barber shop, pool hall, and other services. Marina sales of gasoline and oil for boats, repair services, and dockage or mooring charges are included.

Winter Sports. The commercial enterprises under a special-use permit oriented to skiing or snowplay activities. However, a use associated with skiing or snowplay but which is covered by a separate permit will be categorized as being what it is, rather than winter sports. For example, a lodge may be associated with a ski area, but, if under separate permit it will be considered as a lodge rather than as winter sports. A separately permitted ski school will be classed as winter sports. However, the fee rate for the school will be determined following the instructions on page 9.

#### RATE SCHEDULES

The rates used in calculating fees are taken from graduated rate schedules established in the System. The first of the regular schedules is used in setting fees for all businesses except Winter Sports. The second regular schedule applies to Winter Sports only. These rates in both schedules are standard for Servicewide use in the direct calculation of basic fees. A basic fee so calculated may be subject to a surcharge set either as the result of competitive bidding or by negotiation.

When operated as single businesses, special schedules are provided for Service Stations, and Outfitter-Guide operations.



Changing GFA

Once fixed, GFA will be changed only under the following circumstances:

(1) it may be adjusted as provided under the instructions for "Upon Sale and Transfer of Permit" and (2) it will be updated everytime a fee is calculated. This may or may not result in a change. It is a step taken to recognize additions, deletions, modernization, or unrecovered losses (such as fire) of an existing permittee.

Information needed to update GFA will be submitted by the permittee as a part of his annual operating statement. Therefore, it is to the permittee's advantage to keep good records, and report his investment changes regularly.

Since local Forest officers administering permits will know whether the changes claimed did or did not occur, no special audit need be made to verify these records between routine audits.

On new or reissued permits where flat fees are not involved, updating will be done annually. In existing permits with either percentage fees or flat fees, it will be done at 5-year intervals. Regular updating in GFA is made in this way:

Enter established GFA for improvements	\$ _____	
Show net difference of improvement additions and deletions	\$ _____	
Subtotal for improvements		\$ _____
Enter last cost of short-lived equip- ment and fixtures	\$ _____	
Show additions and deletions	\$ _____	
Subtotal for equipment & fixtures		\$ _____
Grand Total GFA		\$ _____



g. Items listed in a policy statement prepared by the permittee pertaining to gratuities previously approved in writing by the Forest Supervisor. The policy statement will describe how gratuities are to be recorded. A record of gratuities not exempt will be kept by the permittee as a part of the records required under this permit. 1/

h. Franchise receipts.

-----  
/ A sometimes complicated aspect of setting sales stems from the fact that a limited amount of "on the house" gratuities are inherent in most business enterprises. They may take the form of free meal, a free riding lesson, a ski lift pass, the use of concessioners facilities, etc. These are customary trade practices. As a guide to how much of this should be included in sales for fee calculations, the Forest Supervisor will secure agreement with the permittee as to the general nature and extent of his planned gratuity program. As part of this, before the beginning of the season the permittee will provide the Forest Supervisor with a policy statement indicating the nature and extent of his planned gratuity program and who will be the recipients. This may include persons present in the interest of safety of the public; those whose presence will significantly increase sales by publicity for the operation; competitors, judges, and other officials of organized competitive or exhibition events; officials responsible for inspection and administration of the permitted use; and other similar purposes.

After review and approval by the Forest Supervisor, the permittee's reasonable adherence to his program will be controlled as one aspect of the routine inspection of the permitted operation. The policy statement will remain effective until or unless the permittee requests a change. In event of a change, review and approval will be handled as was the original plan.



## APPENDIX D.

### THE HAMMURABI CODE.

#### 200.

If a man knock out the teeth of a man who is his equal in rank, one shall knock out his teeth.

#### 201.

If he knock out the teeth of a freedman, he shall pay one-third mina of silver.

#### 202.

If a man strike a man of higher rank than himself, one shall give him sixty strokes with a cow-hide whip in public.

It seems that public whipping was practiced in Israel too, as in the case of the husband who falsely accused his wife or betrothed of unchastity. (Deut. 22:18.) Some kind of fornication was likewise punished with public whipping. (Lev. 19:20.)

#### 203.

If a free-born man strikes a man of his own rank, he shall pay one mina of silver.

#### 204.

If a freeman strike a freeman, he shall pay ten shekels of silver.

#### 205.

If the slave of a freeman strike a freeman, one shall cut off his ear.





---

## Co-Ops in Ohio Buy 50% Interest In Power Facility

---

Purchase for \$66 Million  
From American Electric  
Is First of Kind in U.S.

---

No Federal Financing Used

---

*By a WALL STREET JOURNAL Staff Reporter*

COLUMBUS, Ohio—A group of 27 Ohio rural electric cooperatives purchased for \$66 million a 50% interest in a \$131 million power plant near Steubenville, Ohio, from American Electric Power Co., New York.

It's the first time that an investor-owned utility and rural electric cooperatives have shared an electric generating facility, and the first time cooperatives have financed a power-plant project with non-Federal funds.

Buckeye Power Inc., owned by the cooperatives, placed privately with a group of 12 insurance companies and other institutional lenders \$62 million in bonds. These proceeds and equity funds from the cooperatives were used to finance the purchase.

The power facility, known as the Cardinal Plant, contains two 615,000-kilowatt generating units. It was placed in operation last July by Ohio Power Co., a subsidiary of American Electric Power, a holding company with utility operations in seven states.

Power from the plant will be distributed to



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Power from the plant will be distributed to the cooperatives over lines of seven investor-owned utilities in the state.

Owen Manning, president of Buckeye Power, said the purchase indicates that cooperatives in Ohio have "attained such a maturity" that they are "no longer dependent on Government financing" to achieve ownership of electric generating facilities. The Ohio cooperatives serve 155,000 customers.

Until now, cooperatives have received power either by buying it from Federal or investor-owned power systems, or by banding together to build Federally financed plants through "super cooperatives."

The Federal Power Commission, in giving its approval to the joint cooperative project with American Electric Power termed it "an encouraging development."

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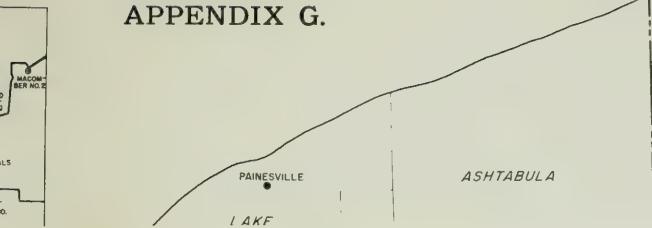




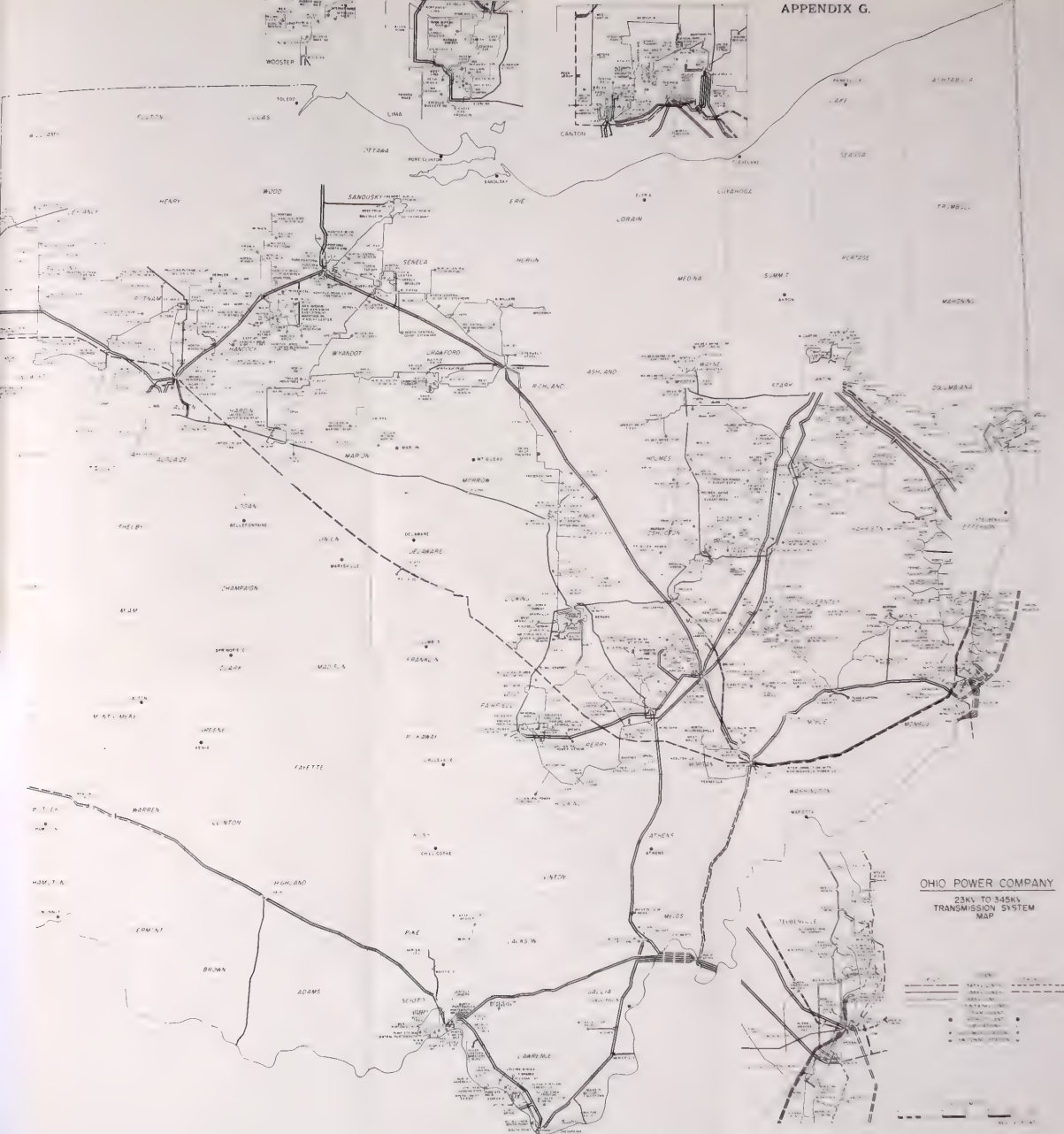




# APPENDIX G.









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IN THE UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT

---

SOUTHERN CALIFORNIA EDISON COMPANY,  
a corporation,

Appellant

v.

UNITED STATES OF AMERICA,

Appellee

JUL  
1968

---

ON APPEAL FROM THE UNITED STATES DISTRICT COURT  
FOR THE CENTRAL DISTRICT OF CALIFORNIA

---

BRIEF FOR THE UNITED STATES AS APPELLEE

---

CLYDE O. MARTZ,  
Assistant Attorney General.

WM. MATTHEW BYRNE, JR.,  
United States Attorney,  
Los Angeles, California, 90012.

THOMAS H. COLEMAN,  
Assistant United States Attorney,  
Los Angeles, California, 90012.

FILED

JUL 8 1968

RAYMOND N. ZAGONE,  
JACQUES B. GELIN,  
Attorneys, Department of Justice,  
Washington, D. C., 20530.

WM. B. LUCK, Clerk

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# INDEX

	Page
Opinion below -----	1
Jurisdiction -----	2
Questions presented -----	2
Constitution and statutes involved -----	2
Statement -----	3
Summary of argument -----	5
Argument:	
I. The Secretary of Agriculture was validly authorized to require power line permit- tees in national forests to assume abso- lute liability for costs of suppressing electrically caused fires -----	7
A. The statutes are constitutional -----	7
B. The statutes authorize the imposition of absolute liability for fire sup- pression costs as a condition of Edi- son's use of the national forests for its electrical power lines -----	12
C. Imposition of absolute liability on Edison is a reasonable condition rel- evant to the protection of the na- tional forests -----	14
II. Edison, having obtained the benefits of the special use permit wherein it voluntarily assumed absolute liability, is now estop- ped from repudiating its burdens -----	17
III. There is no support for appellant's other contentions -----	19
A. Imposition of absolute liability on Edison does not deny it equal protec- tion of the laws -----	19
B. The district court properly interpreted the special use permit as imposing ab- solute liability upon Edison -----	23
C. Since all material issues of fact were stipulated and the only issues before the Court were issues of law, this case was ripe for summary judgment --	24
Conclusion -----	26

## CITATIONS

### Cases:

<u>Aetna Insurance Co. v. Hyde</u> , 275 U.S. 400 -----	13
<u>Alabama v. Texas</u> , 347 U.S. 272 -----	9



<u>Atchison, Topeka &amp;c Railroad v. Matthews</u> , 174	
U.S. 96 -----	22
<u>Best v. Humboldt Mining Co.</u> , 371 U.S. 334 -----	12
<u>Bolling v. Sharpe</u> , 347 U.S. 497 -----	20
<u>Booth Fisheries Co. v. Industrial Comm.</u> , 271	
U.S. 208 -----	19
<u>Boske v. Comingore</u> , 177 U.S. 459 -----	13
<u>Brown v. Board of Education</u> , 347 U.S. 483 -----	20
<u>Bruce v. Travelers Insurance Company</u> , 266 F.2d	
781 -----	25
<u>Buck v. Bell</u> , 274 U.S. 200 -----	20
<u>Butte City Water Co. v. Baker</u> , 196 U.S. 119 -----	8
<u>Bydlon v. United States</u> , 175 F.Supp. 891 -----	22
<u>Camfield v. United States</u> , 167 U.S. 518 -----	9
<u>Chesapeake &amp; O. Ry. Co. v. United States</u> , 139	
F.2d 632 -----	24
<u>Chicago v. Sturges</u> , 222 U.S. 313 -----	17
<u>Chicago, R.I. &amp; Ry. Co. v. Zerneck</u> , 183 U.S. 582 --	17
<u>Corporation Commission v. Lowe</u> , 281 U.S. 431 -----	21
<u>Crescent Oil Co. v. Mississippi</u> , 257 U.S. 129 -----	23
<u>Crowell v. Benson</u> , 285 U.S. 22 -----	17
<u>Curriu v. Wallace</u> , 306 U.S. 1 -----	11
<u>Daniels v. Tearney</u> , 102 U.S. 415 -----	19
<u>Detroit Bank v. United States</u> , 317 U.S. 329 -----	20
<u>Federal Power Commission v. Idaho Power Co.</u> ,	
344 U.S. 17 -----	10
<u>Ferry v. Udall</u> , 336 F.2d 706, cert. den., 381	
U.S. 904 -----	18
<u>First Nat. Bank v. Tax Comm'n</u> , 289 U.S. 60 -----	21
<u>Forbes v. United States</u> , 125 F.2d 404 -----	13
<u>Fox River Co. v. Railroad Commission</u> , 274 U.S. 651 -	11
<u>German Alliance Ins. Co. v. Kansas</u> , 233 U.S. 389 ---	21
<u>Gibson v. Chouteau</u> , 13 Wall. 92 -----	8
<u>Gramm v. Lincoln</u> , 257 F.2d 250 -----	25
<u>Hayman v. Galveston</u> , 273 U.S. 414 -----	22
<u>Hegeman Farms Corp. v. Baldwin</u> , 293 U.S. 163 -----	13
<u>Heisler v. Thomas Colliery Co.</u> , 260 U.S. 245 -----	21
<u>Hoopeston Co. v. Cullen</u> , 318 U.S. 313 -----	21
<u>Hunt v. United States</u> , 278 U.S. 96 -----	10
<u>Ickes v. Underwood</u> , 141 F.2d 546 -----	10
<u>Independent Warehouses v. Scheele</u> , 331 U.S. 70 -----	21
<u>Ivanhoe Irrig. Dist. v. McCracken</u> , 357 U.S. 275 ----	10
<u>Jones v. Brim</u> , 165 U.S. 180 -----	17

Cases cont'd:

Page

<u>Kennedy v. Minarets &amp; Western Ry. Co.</u> , 90 Cal. App. 563, 266 Pac. 353 -----	15
<u>Kleinclaus v. Marin Realty Co.</u> , 94 C.A.2d 733, 211 P.2d 582 -----	24
<u>Louisville Gas Co. v. Coleman</u> , 277 U.S. 32 ---	21
<u>McClung v. Silliman</u> , 6 Wheat. 598 -----	7
<u>McMichael v. United States</u> , 355 F.2d 283 -----	13
<u>N.Y. Central R.R. Co. v. White</u> , 243 U.S. 188 -	17
<u>O'Gorman &amp; Young, Inc. v. Hartford Fire Insurance Co.</u> , 282 U.S. 251 -----	13
<u>Ohio Tax Cases</u> , 232 U.S. 576 -----	21
<u>Pacific States Co. v. White</u> , 296 U.S. 176 ----	13
<u>Perko v. Northwest Paper Co.</u> , 133 F.Supp. 560 --	22
<u>Prentiss v. National Airlines</u> , 112 F.Supp. 306 -	16
<u>Puget Sound Co. v. Seattle</u> , 291 U.S. 619 -----	21
<u>Ruddy v. Rossi</u> , 248 U.S. 104 -----	8
<u>Spokane International Ry. Co. v. United States</u> , 72 F.2d 440 -----	24
<u>Standard Oil Co. of California v. United States</u> , 107 F.2d 402, cert. den., 309 U.S. 654 -----	9
<u>St. Louis &amp; San Francisco R'y v. Mathews</u> , 165 U.S. 1 -----	17, 22
<u>Tax Commissioner v. Jackson</u> , 283 U.S. 527 ----	21
<u>Tennessee Valley Authority v. Lenoir City</u> , 72 F.Supp. 457 -----	18
<u>Thompson v. Consolidated Gas Co.</u> , 300 U.S. 55 --	13
<u>United States v. Alford</u> , 274 U.S. 264 -----	10, 15
<u>United States v. California</u> , 332 U.S. 19 -----	7
<u>United States v. Chesapeake &amp; O. Ry. Co.</u> , 130 F.2d 308 -----	24
<u>United States v. Gear</u> , 3 How. 120 -----	9
<u>United States v. Grimaud</u> , 220 U.S. 506 -----	9, 12
<u>United States v. Perko</u> , 108 F.Supp. 315, aff'd sub nom. <u>Perko v. United States</u> , 204 F.2d 446, cert. den., 346 U.S. 832 -----	22
<u>United States v. Perko</u> , 133 F.Supp. 564 -----	22
<u>United States v. Perko</u> , 141 F.Supp. 372 -----	22
<u>United States v. San Francisco</u> , 310 U.S. 16 --	11, 19
<u>United States v. W. T. Grant Co.</u> , 345 U.S. 629 -	25
<u>Utah Power &amp; Light Co. v. United States</u> , 243 U.S. 389 -----	8
<u>Van Lear v. Eisele</u> , 126 Fed. 823 -----	9
<u>Ventura County v. Southern California Edison Co.</u> , 85 C.A.2d 529, 193 P.2d 512 -----	24
<u>Wall v. Parrot Silver &amp; Copper Co.</u> , 244 U.S. 407 -----	19

Constitution, Statute and Rule:

U.S. Constitution, Article IV, Section 3 -----	7
Organic Administration Act of June 4, 1897, 30 Stat. 35, as amended, 16 U.S.C. sec. 551 ---	12

## Constitution, Statutes and Rule cont'd:

Page

Act of February 15, 1901, 31 Stat. 790, as amended, 16 U.S.C. sec. 522 -----	12
Act of March 4, 1911, 36 Stat. 1253, 16 U.S.C. sec. 523 -----	12
Submerged Lands Act of 1953, 67 Stat. 29, 43 U.S.C. secs. 1301-1315 -----	9
Rule 56(b), F.R.Civ.P. -----	25

## Miscellaneous:

Ames, <u>Law and Morals</u> (1908), 22 Harv. L.Rev. 97 -----	16
Annual Fire Report for the National Forests (1966), U.S. Department of Agriculture -----	15
2 Holdsworth, <u>History of English Law</u> (3d ed. 1923) -----	16
1 Pollock & Maitland, <u>History of English Law Before the Time of Edward I</u> (1895) -----	16
Jeremiah Smith, <u>Tort and Absolute Liability</u> (1916-1917) 30 Harv. L.Rev. 241 -----	16
Wigmore, <u>Responsibility of Tortious Acts</u> , 7 Harv. L.Rev. 441 (1894) -----	16

IN THE UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT

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No. 22492

SOUTHERN CALIFORNIA EDISON COMPANY,  
a corporation,

Appellant

v.

UNITED STATES OF AMERICA,

Appellee

---

ON APPEAL FROM THE UNITED STATES DISTRICT COURT  
FOR THE CENTRAL DISTRICT OF CALIFORNIA

---

BRIEF FOR THE UNITED STATES AS APPELLEE

---

OPINION BELOW

The district court did not write an opinion. Its order, dated September 29, 1967, granting summary judgment in favor of plaintiff with findings of fact and conclusions of law, appears at pages 179-185 of the record.

JURISDICTION

Jurisdiction of the district court over this action brought by the United States rested on 28 U.S.C. sec. 1345. Summary judgment was entered on September 29, 1967 (R. 186). Notice of appeal was filed November 9, 1967 (R. 187). Jurisdiction of this Court rests on 28 U.S.C. sec. 1291.



## QUESTIONS PRESENTED

1. Whether the Secretary of Agriculture, as guardian of the national forests, was authorized to require permittees for electrical power lines in the forests to assume absolute liability for fire suppression costs of electrical fires.

2. Whether, having obtained the benefits of a special use permit wherein it assumed absolute liability for all costs, Edison is now estopped from repudiating its burdens.

## CONSTITUTION AND STATUTES INVOLVED

Article IV, Section 3, clause 2, of the United States Constitution, reads in pertinent part:

The Congress shall have Power to dispose of and make all needful Rules and Regulations respecting the Territory or other Property belonging to the United States; \* \* \*.

The Organic Administration Act of June 4, 1897, 30 Stat. 35, as amended, 16 U.S.C. sec. 551, provides in pertinent part:

The Secretary of Agriculture shall make provisions for the protection against destruction by fire and depredations upon the public forests and national forests which may have been set aside or which may be hereafter set aside \* \* \* and he may make such rules and regulations and establish such service as will insure the objects of such reservations, namely, to regulate their occupancy and use and preserve the forests thereon from destruction \* \* \*.

The Act of February 15, 1901, 31 Stat. 790, as amended, 16 U.S.C. sec. 522, provides in pertinent part:

The Secretary of Agriculture is authorized and empowered, under general regulations to be fixed by him, to permit the use of rights of way through the national forests for electrical plants, poles, and lines for the generation and distribution of electrical power, \* \* \*.

The Act of March 4, 1911, 36 Stat. 1253, as amended, 16 U.S.C. sec. 523, provides in relevant part:

The head of the department having jurisdiction over the lands be, and he hereby is, authorized and empowered, under general regulations to be fixed by him, to grant an easement for rights-of-way, for a period not exceeding fifty years from the date of the issuance of such grant, over, across and upon the public lands, national forests and reservations of the United States for electrical poles and lines for the transmission and distribution of electrical power \* \* \*: Provided, That such right-of-way shall be allowed within or through any national park, national forest \* \* \* only upon the approval of the chief officer of the department under whose supervision or control such reservation falls, and upon a finding by him that the same is not a finding incompatible with the public interest: \* \* \*

#### STATEMENT

The United States brought this action to recover from Edison expenses incurred by the United States Forest Service in extinguishing a forest fire originating from appellant's right of way located in the San Bernardino National Forest, appellee's property.

This case is of great importance to the Forest Service because it involves the interpretation of the "high hazard" clause which the Forest Service has since 1916 required be

included in special use permits granting rights of way through national forests for electrical transmission lines (R. 143). The Forest Service has uniformly interpreted such "high hazard" clauses as imposing upon permittees absolute liability for all costs incurred, including costs of fire suppression, from electrically caused fires. Several thousand such special use permits are now extant throughout the United States.

The special use permit before the court, dated October 8, 1962, granted to Edison a 15-foot right of way within the San Bernardino National Forest to construct, maintain and operate an electrical transmission line. It was executed for the Forest Service by the Acting Forest Supervisor and for Edison by a Vice President (R. 9, 16, 113, 116).

Printed Condition No. 8, requiring the permittee to exercise "due diligence" and obligating it to pay the United States for any damage resulting from negligence, was stricken (R. 16, 133). In place thereof, a typewritten "high hazard" clause imposing on Edison absolute liability for any damage regardless of fault was substituted, reading as follows (R. 7, 17, 114):

The permittees shall pay the United States  
for any damage resulting from this use.

Edison was fully familiar with the terms and meaning of "high hazard" clauses; for approximately five years previousl



Edison had negotiated a similar right of way permit with the Forest Service. Edison had then requested the deletion of the "high hazard" clause. The Regional Forester had written to Edison informing it that this could not be done and explained that under this clause Edison would be liable for fire suppression costs regardless of negligence. (R. 145-146.)

The district court found that the permit was a complete contract to be construed on its face; that the assumption of absolute liability by Edison in the "high hazard" clause was clear and unambiguous; that by stipulation the fire was electric in source, not the result of defendant's negligence, but emanated from Edison's electric lines erected and maintained pursuant to the special use permit; and that Edison's assertion, that the enforcement of the terms of the contract imposing absolute liability on it would be unconstitutional, was insubstantial and without merit (R. 180-184). This appeal followed.

#### SUMMARY OF ARGUMENT

##### I

The United States is the owner of the public lands. The Constitution commits to Congress the power to dispose of and make all needful rules and regulations respecting the territory or other property belonging to the United States. The Supreme Court has consistently recognized that Congress has plenary power to dispose of the public lands upon such terms and conditions as the public interest requires. The United States is



not required, if it bestows a bounty or permits the use of its property, to refrain from imposing any conditions or limitation. The power to grant or withhold privileges comprehends the power to impose reasonable conditions which are germane to the objectives of the grant or relevant to the federal interest in the property being used or dispensed.

This power is delegable. Congress has vested the Secretary of Agriculture with the duty of preserving the national forests from destruction by fire and other depredations. It has granted him discretionary power to regulate the use and occupancy of the forests. Congress has also empowered the Secretary, pursuant to regulations to be fixed by him, to grant right of way through national forests for electrical transmission lines.

The Secretary's policy requiring the imposition of absolute liability for electrically caused fires upon permittees is, considering the formidable hazard and immense economic toll taken by forest fires, an appropriate exercise of his discretion relevant to the protection of the interests of the United States.

## II

Having agreed to assume absolute liability for electrically caused fires, and having accepted the benefits of the right of way permit, Edison is now estopped from resisting enforcement of this agreement by asserting that the agreement is invalid on the basis of alleged unconstitutionality.

### III

The agreement does not violate the Constitution, does not deprive Edison of its property without due process of law and does not deny to it equal protection of the laws. The special use permit clearly imposed absolute liability on Edison for fire suppression costs. All material issues of fact were stipulated, including damages. Summary judgment was therefore proper.

### ARGUMENT

#### I

THE SECRETARY OF AGRICULTURE WAS  
VALIDLY AUTHORIZED TO REQUIRE  
POWER LINE PERMITTEES IN  
NATIONAL FORESTS TO ASSUME  
ABSOLUTE LIABILITY FOR COSTS  
OF SUPPRESSING ELECTRICALLY  
CAUSED FIRES

A. The statutes are constitutional. - Congress enjoys broad and sweeping powers over the lands of the United States. Article IV, Section 3, of the Constitution, commits to Congress the power "to dispose of and make all needful rules and regulations" respecting the lands of the United States. The Government's power of disposal is absolute. "No one has ever contested its supreme right to dispose of its own property in its own way." McClung v. Silliman, 6 Wheat. 598, 605 (1821); see also United States v. California, 332 U.S. 19, 27 (1947). "The Nation is an owner, and has made Congress the principal agent to dispose

of its property." Butte City Water Co. v. Baker, 196 U.S. 119, 126 (1905). Thus, in Gibson v. Chouteau, 13 Wall. 92, 99 (1872) the Supreme Court wrote:

With respect to the public domain, the Constitution vests in Congress the power of disposition and of making all needful rules and regulations. That power is subject to no limitations. Congress has the absolute power to prescribe the times, the conditions, and the mode of transferring this property, or any part of it, \* \* \*.

In sustaining the constitutionality of a provision of the Homestead Act of 1862, exempting homestead lands from satisfaction of any debt contracted prior to the issuance of such patent, the Supreme Court in Ruddy v. Rossi, 248 U.S. 104, 106 (1918), stated:

[I]t is settled that Congress has plenary power to dispose of public lands. United States v. Gratiot, 14 Pet. 526, 537. They may be leased, sold or given away upon such terms and conditions as the public interests require.

So, too, in Utah Power & Light Co. v. United States, 243 U.S. 389 (1917), the United States was granted an injunction against defendant's unauthorized occupancy of rights of way for electrical power lines through public lands and awarded compensation for past use. With respect to the lands of the United States the Supreme Court sustained (at 405) the power of the Federal Government "to control their occupancy and use, to



protect them from trespass and injury and to prescribe the conditions upon which others may obtain rights in them \* \* \*."

The unfettered power of Congress to dispose of the public lands is beyond the reach of the other branches of the Government. As this Court wrote in Standard Oil Co. of California v. United States, 107 F.2d 402, 409 (1939), cert. den., 309 U.S. 654: "The disposal of the public lands is not a subject over which the 'judicial power' of the United States is extended. It is a field in which the authority of Congress is supreme \* \* \*." For this reason States not benefited by the Submerged Lands Act of 1953, 67 Stat. 29, 43 U.S.C. secs. 1301-1315, were denied leave to file complaints in the Supreme Court challenging that Act's constitutionality. Alabama v. Texas, 347 U.S. 272 (1954).

As an incident to its ownership and unfettered power over federal lands, Congress may take such steps as it deems necessary to protect the public lands. It may prevent unauthorized mining, United States v. Gear, 3 How. 120 (1845); it may enjoin grazing without a permit, United States v. Grimaud, 220 U.S. 506 (1911); it may prohibit fencing of adjoining private lands in a manner which renders public land nearly inaccessible, Camfield v. United States, 167 U.S. 518 (1897); it may bar patients of unregistered physicians from using waters of federally-owned hot springs, Van Lear v. Eisele, 126 Fed. 823 (C.C. E.D. Ark. 1903); it may, in derogation of state game laws, authorize

the killing of surplus deer whose foraging threatens injury to a national forest, Hunt v. United States, 278 U.S. 96 (1928); and it may punish adjoining landowners leaving fires on private land extinguished which imperil public forests, United States v. Alford, 274 U.S. 264 (1927).

Since the control and disposition of the lands of the United States are lodged exclusively in Congress, it may impose such reasonable conditions upon any use or grant as it sees fit. "The Government may dispose of its bounty on such terms as it sees fit \* \* \*." Ickes v. Underwood, 141 F.2d 546, 548 (C.A. D.C. 1944).<sup>1/</sup> The Supreme Court has sustained the right of the Federal Power Commission to require a utility using a right of way on public lands to agree to carry government power over its lines. Federal Power Commission v. Idaho Power Co., 344 U.S. 17 (1952). Pursuant to federal reclamation laws the Secretary of the Interior may impose certain conditions in contracts. Ivanhoe Irrig. Dist. v. McCracken, 357 U.S. 275, 295 (1958). The power to approve or disapprove includes the power to condition its approval and to set any conditions it deems necessary for the general welfare. So in Southern Pac. Co. v. Olympian Co., 260 U.S. 205 (1922), the Supreme Court sustained

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<sup>1/</sup> The Court went on to add the following: "\* \* \* and the executive agency which Congress has chosen for the purpose of giving away public lands and mineral deposits is peculiarly equipped, in terms of experience and administrative capacity, to act in its behalf. When an executive agency acts in this capacity, there is, perhaps, less reason than in any other type of administrative action to subject its determinations to judicial review."

the Secretary of War's conditional approval of the construction of a new bridge upon the demolition and removal of an old bridge which threatened navigation. Congress may even attach terms and conditions to the disposition of federal property to accomplish indirectly those objectives which it could not achieve directly. Thus, in United States v. San Francisco, 310 U.S. 16 (1940), the United States, under the Raker Act, granted to San Francisco certain lands and rights of way over federal property for use as a municipal water supply and for production of electricity. This grant, however, was conditioned upon the prohibition against the City transferring to any public utility the right to sell electrical power produced under this grant. In sustaining this conditional grant by Congress, the Supreme Court wrote (at 29-30):

The power over the public land thus entrusted to Congress is without limitations. "And it is not for the courts to say how that trust shall be administered. That is for Congress to determine." Thus, Congress may constitutionally limit the disposition of the public domain to a manner consistent with its views of public policy. And the policy to govern disposal of rights to develop hydroelectric power in such public lands may, if Congress chooses, be one designed to avoid monopoly and to bring about a wide-spread distribution of benefits. The statutory requirement that Hetch-Hetchy power be publicly distributed does not represent an exercise of a general control over public policy in a State but instead only an exercise of the complete power which Congress has over particular property entrusted to it. 2/

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2/ Fox River Co. v. Railroad Commission, 274 U.S. 651, 657 (1926); and Curran v. Wallace, 306 U.S. 1, 14 (1939), also demonstrate that when plenary power over a subject is enjoyed, grants of privileges therein may properly be conditioned.



That Congress may delegate to the executive its power over public lands is unquestioned. Best v. Humboldt Mining Co., 371 U.S. 334, 336-338 (1963). The foregoing authorities clearly sustain the constitutional prerogative of Congress to empower the Secretary of Agriculture to supervise and control the national forests. See also United States v. Grimaud, 220 U.S. 506 (1911). We now show that Congress has done so, and that the delegation encompasses the authority to condition privileged use of the national forests by imposing strict liability for damage.

B. The statutes authorize the imposition of absolute liability for fire suppression costs as a condition of Edison's use of the national forests for its electrical power lines. - Congress has directed the Secretary of Agriculture to "make provisions for the protection against destruction by fire and depredations upon the public forests and national forests \* \* \* to regulate their occupancy and use and preserve the forests thereon from destruction."<sup>3/</sup> He has been "authorized and empowered, under general regulations to be fixed by him, to permit the use of rights of way through the national forests for electrical plants, poles, and lines for the generation and distribution of electrical power."<sup>4/</sup>

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<sup>3/</sup> Organic Administration Act of June 4, 1897, 30 Stat. 35, as amended, 16 U.S.C. sec. 551.

<sup>4/</sup> Act of February 15, 1901, 31 Stat. 790, as amended, 16 U.S.C. sec. 522. See also Act of March 4, 1911, 36 Stat. 1253, 16 U.S.C. sec. 523.

Clearly the Secretary is directed to exercise discretion and judgment in adopting policies calculated to achieve the purposes of these Acts. See McMichael v. United States, 355 F.2d 283 (C.A. 9, 1965); Forbes v. United States, 125 F.2d 404 (C.A. 9, 1942). Special use permits containing "high hazard" clauses, whereby permittees who obtain rights of way for passage of electricity through national forests agree to assume absolute liability for electrically caused fires, have been in force since 1916, as a matter of policy. In addition to being within the ambit of the statutes, the Secretary's policy, in force for over 50 years, is supported by a presumption of the existence of facts justifying the policy. Thompson v. Consolidated Gas Co., 300 U.S. 55, 69 (1937); Pacific States Co. v. White, 296 U.S. 176, 185 (1935).

If the presumption of validity is to be rebutted, the facts relied on to overturn the presumption must be specifically set forth. Aetna Insurance Co. v. Hyde, 275 U.S. 440, 447 (1928); O'Gorman & Young, Inc. v. Hartford Fire Insurance Co., 282 U.S. 251, 257 (1931); Hegeman Farms Corp. v. Baldwin, 293 U.S. 163, 170 (1934). This, appellant has not done.

Nearly 70 years ago the Supreme Court announced the doctrine that regulations cannot be invalidated unless they are plainly inconsistent with the law. In Boske v. Comingore, 177 U.S. 459, 470 (1900), the Court stated:



At any rate, the Secretary deemed the regulation in question a wise and proper one, and we cannot perceive that his action was beyond the authority conferred upon him by Congress. In determining whether the regulations promulgated by him are consistent with law, we must apply the rule of decision which controls when an act of Congress is assailed as not being within the powers conferred upon it by the Constitution; that is to say, a regulation adopted \* \* \* should not be disregarded or annulled unless, in the judgment of the court, it is plainly and palpably inconsistent with law. Those who insist that such a regulation is invalid must make its invalidity so manifest that the court has no choice except to hold that the Secretary has exceeded his authority and employed means that are not at all appropriate to the end specified in the act of Congress. [Emphasis supplied.]

The "high hazard" clause, long expressed in terms of policy, has been deemed necessary. It does not conflict with the authority conferred by Congress. Appellant has not met its burden of showing the contrary.

C. Imposition of absolute liability on Edison is a reasonable condition relevant to the protection of the national forests. - The reasonableness of the policy behind the imposition of absolute liability on high hazard permittees in national forests is readily apparent. The greatest threat to the national forests is fire. In cases of fires originating from electrical power lines it is often extremely difficult, if not impossible, to prove negligence even where it exists. It is quite proper, therefore, to require those who create peril for profit by using

dangerous instruments, to be required to bear any loss caused thereby.

Fires represent a major threat to forests. In the words of Justice Holmes, they have been "one of the great economic misfortunes of the country." United States v. Alford, 274 U.S. 264, 269 (1927). Between 1961 and 1965, 11,702 forest fires annually burned an average of 138,868 acres. In 1966, the number of acres burned increased to 332,921. In California, forest fires are particularly destructive. The damage to California (\$7,942,200) was nearly six times that of the next state, Idaho.

Courts have recognized California's particular susceptibility to forest fires. In Kennedy v. Minarets & Western Ry. Co., 90 Cal.App. 563, 266 Pac. 353 (1928), after acknowledging the power to impose absolute liability and treble damages for fires caused by locomotives, the court sustained the imposition of treble damages for negligent fire damage, writing: "The danger from fires in a dry country like California is so great as to justify the police power of the state in imposing treble damages \* \* \*." (90 Cal.App. at 581, 266 Pac. at 360.) A fortiori, the

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5/ Annual Fire Report for the National Forests (1966), U.S. Department of Agriculture, p. 3; Table 3, p. 1.

Federal Government as owner of the public domain may, under the property clause of the Constitution, impose absolute liability for fire suppression costs as a condition precedent to the right to acquire a right of way for electrical transmission easements through national forests.

Imposition of liability without fault, or absolute liability, is not novel to the law.<sup>6/</sup> Since the times of Aethelbert and Alfred the Great, the doctrine of torts was that of absolute liability. Negligence was unknown to the law until some thousand years later. "Historically, therefore, at common law, absolute liability for torts was from the earliest times not merely recognized as due process of law, it was the due process of law." Prentiss v. National Airlines, 112 F.Supp. 306, 310 (D. N.J. 1953) (emphasis in original).

Imposition of absolute liability upon railroads for damages resulting from fire has been sustained, because of difficulty of proving negligence, for well over a century. An extensive review of the history and philosophy of preceding legislation over the preceding half-century was reviewed by Justice

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6/ 2 Holdsworth, History of English Law (3d ed. 1923), p. 51;  
1 Pollock & Maitland, History of English Law Before the Time of Edward I (1895) p. 31; Wigmore, Responsibility of Tortious Acts, 7 Harv. L.Rev. 441 (1894); Ames, Law and Morals (1908), 22 Harv. L.Rev. 97; Jeremiah Smith, Tort and Absolute Liability (1916-1917) 30 Harv. L.Rev. 241, 319, 409.



Gray in St. Louis & San Francisco Ry. v. Mathews, 165 U.S. 1 (1897), where the validity of Missouri's statute was sustained. Examples of the application of absolute liability are legion: Railroads have been made liable for injuries to passengers, Chicago, R.I. & Ry. Co. v. Zerneck, 183 U.S. 582 (1902); drivers of animals have been liable for damage to the highway, Jones v. Brim, 165 U.S. 180 (1897); municipalities have been liable for injuries done by mobs, Chicago v. Sturges, 222 U.S. 313 (1911); employers have been liable, irrespective of fault, for injury or death to employees occurring in employment, N.Y. Central R.R. Co. v. White, 243 U.S. 188 (1917); and absolute liability has been imposed by state workmen's compensation law, Crowell v. Benson, 285 U.S. 22 (1932).

The reasonableness of the imposition of absolute liability upon electrical power line permittees in the national forests is apparent, we submit, in view of the known facts about the danger of forest fires, the difficulties of proof, and the annual destruction which they inflict upon our forests.

## II

EDISON, HAVING OBTAINED THE BENEFITS  
OF THE SPECIAL USE PERMIT WHEREIN IT  
VOLUNTARILY ASSUMED ABSOLUTE  
LIABILITY, IS NOW ESTOPPED  
FROM REPUDIATING ITS BURDENS

In the case at bar, Edison negotiated and obtained a right of way permit through a national forest. This permit contained a "high hazard" clause imposing absolute liability on

Edison for electrically caused fires. After having accepted the benefits of the contract, Edison now objects to the enforcement of this clause. This, it cannot do.

The Secretary of Agriculture was under no legal obligation to agree to Edison's use. As we have shown, Congress vested in him discretion and judgments, and the Secretary's requirement, that strict liability be assumed, is reasonable. If that liability were unacceptable to Edison, it could have rejected the agreement. As this Court reasoned in Ferry v. Udall, 336 F.2d 706, 709, note 4 (1964), cert. den., 381 U.S. 904, with regard to conditions imposed by the Secretary of the Interior for obtaining public property:

Since the Secretary has discretionary power to refuse to sell at all, he also has the authority to set any conditions, consistent with the Act, upon which the sale may be made. Cf. Southern Pacific Co. v. Olympian Dredging Co., 260 U.S. 205, 208, 43 S.Ct. 26, 67 L.Ed. 213. If the appellants did not like the system the Secretary established for entertaining bids, their remedy was that of not bidding at all. Cf. Erie Coal & Coke Corp. v. United States, 266 U.S. 518, 45 S.Ct. 181, 69 L.Ed. 417; United States v. Weisbrod, 7 Cir. 202 F.2d 629, 633.

Similarly, in Tennessee Valley Authority v. Lenoir City, 72 F.Supp. 457 (E.D. Tenn. 1947), a city agreed to charge prescribed resale rates for power obtained from T.V.A. There, as in the case at bar, the obligor sought to avoid performance of its contractual obligation. The court disposed of the city's

argument (at 461):

Under the property clause of the Constitution as interpreted by the United States Supreme Court, Congress may, in disposing of property, attach such reasonable conditions as are necessary for the general welfare. If the purchaser does not wish to take the property with the conditions attached by Congress, his remedy is to decline to purchase it. If he accepts the benefits of the contract, he must comply with its conditions.

Edison sought a right of way through a national forest, it signed an agreement assuming absolute liability for fire suppression costs, and it entered upon its right of way, constructed power lines and commenced transmitting electricity. It may not now challenge the validity of the agreement. Daniels v. Tearney, 102 U.S. 415, 421 (1880); Booth Fisheries Co. v. Industrial Comm., 271 U.S. 208, 211 (1926); Wall v. Parrot Silver & Copper Co., 244 U.S. 407, 412 (1917). See also United States v. San Francisco, 310 U.S. 16, 30 (1940).

### III

#### THERE IS NO SUPPORT FOR APPELLANT'S OTHER CONTENTIONS

A. Imposition of absolute liability on Edison does not deny it equal protection of the laws. - Edison argues (Br. 18-27) that the imposition of absolute liability upon "investor-owned" utilities denies to it equal protection of the laws, because publicly owned utilities are liable only for damages caused by negligence. Edison further contends that enforcement of the



terms of the agreement amounts to a denial of due process, which it argues, amounts to the same thing because "'equal protection' is formally equally a deprivation of due process of law" (Br. 20).

Thus, Edison anticipates the short answer to its equal protection argument which is, of course, that the inhibition against denial of equal protection of the laws contained in the Fourteenth Amendment refers exclusively to state action. As Chief Justice Stone observed in Detroit Bank v. United States, 317 U.S. 329, 337 (1943): "Unlike the Fourteenth Amendment, the Fifth contains no equal protection clause and it provides no guaranty against discriminatory legislation by Congress." Moreover, as applied to the facts of this case, the equal protection argument is, as observed by Justice Holmes, the "usual last resort of constitutional arguments." Buck v. Bell, 274 U.S. 200, 208 (1927).

Edison's claim that Bolling v. Sharpe, 347 U.S. 497 (1954), effectively equates equal protection with due process simply will not withstand analysis. While elements of fairness pervade both concepts, they are not coterminous. In Bolling, Chief Justice Warren wrote that "discrimination may be so unjustifiable as to be violative of due process." 347 U.S. at 499. Bolling was decided the same day as Brown v. Board of Education, 347 U.S. 483 (1954), which held that the equal protection clause forbids the states from maintaining racially segregated

public schools. In Bolling, the Court was faced with the problem in the District of Columbia where only the Fifth Amendment, which has no equal protection clause, applied. The Court held that a classification based solely on race violated due process.

Permissible classifications for purposes of equal protection have been accorded a "wide range and flexibility." Louisville Gas Co. v. Coleman, 277 U.S. 32, 37 (1928). Classifications have been upheld in the following situations: Heavier taxes imposed on banks which make loans from money of depositors rather than from other funds, First Nat. Bank v. Tax Comm'n, 289 U.S. 60 (1933); different rates on anthracite than on bituminous coal, Heisler v. Thomas Colliery Co., 260 U.S. 245 (1922); different taxes on chain stores, Tax Commissioner v. Jackson, 283 U.S. 527 (1931); tax exceptions applicable only to municipal power systems, Puget Sound Co. v. Seattle, 291 U.S. 619 (1934); higher taxes on railroads than other utilities, Ohio Tax Cases, 232 U.S. 576 (1914); taxes applicable only to commercial warehouses but not to other storage facilities in a township, Independent Warehouses v. Scheele, 331 U.S. 70 (1947); cooperatively owned as opposed to privately owned cotton gins, Corporation Commission v. Lowe, 281 U.S. 431 (1930); fire insurance rates excepting farmers mutuals, German Alliance Ins. Co. v. Kansas, 233 U.S. 389 (1914); different rates imposed upon reciprocal insurance associations than upon mutual companies, Hoopeston Co. v. Cullen, 318 U.S.



313 (1943); exclusion of osteopathic physicians from public hospitals, Hayman v. Galveston, 273 U.S. 414 (1927).<sup>7/</sup>

The validity of the imposition of absolute liability on railroads for fire communicated by their engines was sustained against the equal protection argument by the Supreme Court over 80 years ago in St. Louis & San Francisco R'y. v. Mathews, 165 U.S. 1 (1897). See also Atchison, Topeka & C. Railroad v. Matthews, 174 U.S. 96 (1899).

Equal protection forbids all invidious discrimination. It does not require identical treatment of all persons without recognition of differences in relevant circumstances. The test is whether the challenged classification is reasonably related to any proper governmental objective. Every state of facts sufficient to sustain a classification which can reasonably be conceived of as having existed when the law was adopted will be

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7/ Intimations culled from dicta in the so-called Perko cases (United States v. Perko, 133 F.Supp. 564 (D. Minn. 1955); United States v. Perko, 108 F.Supp. 315 (D. Minn. 1952), aff'd sub nom. Perko v. United States, 204 F.2d 446 (C.A. 8, 1953), cert. den., 346 U.S. 832; Perko v. Northwest Paper Co., 133 F. Supp. 560 (D. Minn. 1955); United States v. Perko, 141 F.Supp. 372 (D. Minn. 1956); Bydlon v. United States, 175 F.Supp. 891 (C.Cls. 1959)), cited by appellant (Br. 27-32), that the United States should deal fairly with persons similarly situated, are unexceptional. Edison studiously avoids meeting the real issue in this case, namely, should a company which agrees to assume absolute liability for fire suppression costs as a condition to its securing a right of way upon the public domain be held to its agreement?

assumed. Crescent Oil Co. v. Mississippi, 257 U.S. 129, 137 (1921).

We have shown that federal legislation has sanctioned imposition of absolute liability, that such liability is reasonably related to the protection of the national forests, and that Edison voluntarily assumed such liability. Edison, therefore, may not validly complain of unequal treatment.

B. The district court properly interpreted the special use permit as imposing absolute liability upon Edison. - Edison argues (Br. 14-18) that the terms of the special use permit do not impose absolute liability on it. Edison asserts that the presence of various covenants in the permit requiring it to exercise due care and to comply with state, federal and local regulations negate any intent to impose upon it absolute liability for fire suppression costs. This is not so. These covenants were included to enable the Forest Service to terminate the permit upon Edison's breach. Thus, paragraph 15 reads (R. 6):

15. This permit may be terminated upon breach of any of the conditions herein or at the discretion of the regional forester or the Chief, Forest Service.

These covenants, then, did not impose the standard of care requirement on Edison upon which liability was predicated. The absolute liability clause in condition No. 8 governed that. That typewritten clause, which provided (R. 7) that "The permittee shall pay the United States for all damages resulting from

this use," was expressly substituted for the printed clause imposing liability for negligence.

Condition No. 8 was clear on its face; both parties fully understood the reasons behind the inclusion of this provision. Edison, by reason of having been a party to prior litigation, was fully familiar with the concept involving imposition of costs for fire suppression. Ventura County v. Southern California Edison Co., 85 C.A.2d 529, 193 P.2d 512 (1948). The term "damage" has been interpreted to include fire suppression costs. Spokane International Ry. Co. v. United States, 72 F.2d 440, 443 (C.A. 9, 1934), cited in United States v. Chesapeake & O. Ry. Co., 130 F.2d 308, 310 (C.A. 4, 1942); Chesapeake & O. Ry. Co. v. United States, 139 F.2d 632 (C.A. 4, 1944). "The reasonable cost involved in mitigating damages is always recoverable provided it does not exceed the damages prevented or reasonably anticipated." Kleinclaus v. Marin Realty Co., 94 C.A.2d 733, 739, 211 P.2d 582, 585 (1949).

Edison's earlier (unsuccessful) attempt to have the clause deleted and its full explanation by the Forest Service dispose of all claims relating to its understanding (R. 145-146).

The district court, therefore, was clearly correct in interpreting the special use permit as imposing absolute liability on Edison.

C. Since all material issues of fact were stipulated and the only issues before the Court were issues of law, this case was ripe for summary judgment. - All of the material facts herein were stipulated (P. 165-171). The fire was electric in



source, not the result of Edison's negligence, but emanated from Edison's electric lines erected and maintained pursuant to the special use permit (R. 165). The damages for suppression of the fire were stipulated to be \$8,224 (R. 166).

The only issues before the Court were questions of interpretation of written agreements. The central issue posed was as follows in the pre-trial order (R. 166):

9. That the claim of the United States in the above-entitled action is based upon the aforesaid Special Use Permit and is not based upon any claim that Southern California Edison Company was negligent or at fault, and that the sole issue in this litigation is whether Southern California Edison Company is liable for fire suppression damage, as proved or stipulated, by reason of its liability, without fault, pursuant to its obligations under the aforesaid contract; \* \* \*.

Summary judgment is authorized by Rule 56(c), F.R.Civ.P., "if the pleadings, depositions, admissions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." United States v. W. T. Grant Co., 345 U.S. 629, 635 (1953); Bruce v. Travelers Insurance Company, 266 F.2d 781, 786-787 (C.A. 5, 1959). Admissions in the form of a pre-trial stipulation form the proper basis for summary judgment. Gramm v. Lincoln, 257 F.2d 250, 252 (note 1) (C.A. 9, 1958).

CONCLUSION

For the foregoing reasons, the judgment should be affirmed.

Respectfully submitted,

CLYDE O. MARTZ,  
Assistant Attorney General.

WM. MATTHEW BYRNE, JR.,  
United States Attorney,  
Los Angeles, California, 90012.

THOMAS H. COLEMAN,  
Assistant United States Attorney,  
Los Angeles, California, 90012.

RAYMOND N. ZAGONE,  
JACQUES B. GELIN,  
Attorneys, Department of Justice,  
Washington, D. C., 20530.

JUNE 1968

CERTIFICATE OF EXAMINATION OF RULES

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

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JACQUES B. GELIN  
Attorney, Department of Justice  
Washington, D. C., 20530

No. 22492

MAY 10 1938

IN THE

# United States Court of Appeals

FOR THE NINTH CIRCUIT

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SOUTHERN CALIFORNIA EDISON COMPANY, a corporation,  
tion,

*Appellant,*

*vs.*

UNITED STATES OF AMERICA,

*Appellee.*

---

Appeal From United States District Court, Central District,  
Pursuant to 28 U. S. C. 1291.

---

## APPELLANT'S OPENING BRIEF.

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ROLLIN E. WOODBURY,  
RICHARD T. DRUKKER,  
HUGH B. ROTCHFORD, and  
CHASE, ROTCHFORD, DRUKKER &  
BOGUST,

411 West Fifth Street,  
Los Angeles, Calif. 90013,

*Attorneys for Appellant.*

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WM. B. LUCK



## TOPICAL INDEX

	Page
Statement of Pleadings and Facts Disclosing Jurisdictions .....	1
Statement of the Case .....	2
Specification of Errors .....	8

### I.

Absolute Liability Cannot, as a Matter of Law, Be Imposed Upon Appellant Under the Terms of the Contract and the Contradicted Facts .....	8
A. Preliminary Statement .....	8
B. Absolute Liability Is an Exceptional Situation and Should Rarely Be Determined to Exist and Then Only in the Clearest Case ..	11
C. Any Ambiguities Caused by the Draftsman of a Contract Must Be Resolved Against That Party .....	13
D. The Contract Must Be Interpreted, If at All Possible, to Save Its Constitutionality Rather Than Reach an Unconstitutional Result .....	14
E. The Contract Does Not, Within Its Terms, Impose Absolute Liability .....	14

### II.

An Interpretation of the Contract to Impose Liability Without Fault Results in a Denial of Appellant to the Equal Protection of the Laws and, Therefore, a Denial of Due Process of Law .....	18
A. Preliminary Statement .....	18



	Page
B. The Concept of Equal Protection Is Applicable to the Federal Government .....	20
C. Application of the Equal Protection Concept of the Due Process of Land Clause to the Federal Government in Exercising Its Jurisdiction Over the Property Which It Holds as Outright Proprietor or as "Trustee for the People" .....	23
D. The Perko Story .....	27
Conclusion .....	33
Appendix 1. Special Use Permit	
Appendix 2. Official Certificate of the Secretary of Agriculture	

## TABLE OF AUTHORITIES CITED

Cases	Page
Albuncio v. Madera Irr. Dist., 47 Cal. 2d 695, 306 P. 2d 894 .....	24
Bolling v. Sharpe, 347 U.S. 497, 74 S. Ct. 693 .....	20, 21
Bydlon v. United States, 175 F. Supp. 891 .....	31
City of St. Paul v. Dalsin, Minn., 71 N.W. 2d 855 ..	30
Fulwood v. Clemmer, 295 F. 2d 171 .....	22
Grace & Co. v. City of Los Angeles, 168 F. Supp. 344 .....	12
Green v. General Petroleum Corp., 205 Cal. 328, 270 Pac. 952, 60 A.L.R. 475 .....	12
Griswold v. State of Conn., 381 U.S. 479, 85 S. Ct. 1678 .....	21
Howard v. U.S., 372 F. 2d 294 .....	22
Ivanhoe Irr. Dist. v. All Parties, 47 Cal. 2d 597, 275, 78 S. Ct. 1174 .....	24, 27
Ivanhoe Irrigation District v. McCracken, 357 U.S. 275, 78 S. Ct. 117 4.....	24, 27
Kennedy v. Commandant, 377 F. 2d 339 .....	22
Lamb v. Shasta Oil Co., 149 F. 2d 729 .....	2
Logomarsino v. San Jose, etc. Title Ins. Co., 178 Cal. App. 2d 455, 3 Cal. Rptr. 80 .....	13
Mackie v. United States, 194 F. Supp. 306 .....	32
McKenzie v. Pacific Gas & Elec. Co., 200 Cal. App. 2d 731, 19 Cal. Rptr. 628 .....	13
Narver v. California State Life Ins. Co., 211 Cal. 176, 294 Pac. 393, 71 A.L.R. 1374 .....	13
N.L.R.B. v. Gene Compton's Corp., 262 F. 2d 653 ..	22

	Page
Pacific Natural Gas Co. v. Federal Power Commis- sion, 276 F. 2d 350 .....	22
Rylands v. Fletcher (1868), L.R. 3, H.L. 330 .....	12
Santa Barbara Etc. Agency v. All Persons, 47 Cal. 2d 699, 306 P. 2d 875 .....	24
Schneider v. Rusk, 377 U.S. 163, 84 S. Ct. 187 .....	21
Todd v. Joint Apprenticeship Committee, 223 Fed. Supp. 12 .....	23
United States v. Perko, 108 F. Supp. 315; aff'd, Perko v. United States, 204 F. 2d 446; cert. den., 346 U.S. 832; 74 S. Ct. 48 .....	28, 32
United States v. Perko, 133 F. Supp. 564 .....	27, 29
.....	31, 32
United States v. Perko, 141 F. Supp. 372 .....	31, 32
Miscellaneous	
General Order No. 5 .....	15
General Order No. 95 .....	16
Rules	
Federal Rules of Civil Procedure, Rule 73(a) .....	2
Statutes	
Act of Congress of June 25, 1948, Chap. 646 (62 Stat. 933) .....	1
Salmond, Law of Torts (7th Ed. 1924), pp. 11-12 ..	12
United States Code, Title 16, Sec. 522 .....	14
United States Code, Title 16, Sec. 577 .....	28
United States Code, Title 16, Sec. 577C .....	28
United States Code, Title 28, Sec. 1291 .....	2

	Page
United States Code, Title 28, Sec. 1345 .....	1
United States Constitution, Art. VI .....	19
United States Constitution, Fifth Amendment .....	7
.....	21, 27
United States Constitution, Fourteenth Amendment .....	21

#### Textbooks

Alexander Hamilton, The Federalist, Numbers 78 and 81 (Modern Library Edition, pp. 506, 522- 533 .....	14
30 Harvard Law Review (1917), pp. 241, 319, 409..	12
Holmes, The Common Law (1881), pp. 144-163 ....	12



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## APPELLANT'S OPENING BRIEF.

---

### Statement of Pleadings and Facts Disclosing Jurisdictions.

Jurisdiction in the United States District Court was invoked by the United States as plaintiff and rested upon the Act of Congress of June 25, 1948, c. 646, 62 Stat. 933, 28 U.S.C. Section 1345 [Clk. Tr. p. 2]. This section reads as follows:

“Except as otherwise provided by Act of Congress the district courts shall have original jurisdiction of all civil actions, suits or proceedings commenced by the United States, or by any agency or officer thereof expressly authorized to sue by Act of Congress.”

Venue was laid in the Central District of California, formerly the Southern District of California, Central Division, because appellant had its principal place of business in Los Angeles and because the fire, the extinction of which is the basis of the action, occurred in the San Bernardino National Forest [Clk. Tr. p. 3].

Jurisdiction in the Court of Appeals is founded on 28 U.S.C. Section 1291, reading:

“The courts of appeals shall have jurisdiction of appeals from all final decisions of the district courts of the United States, . . . except where a direct review may be had in the Supreme Court.”

The judgment in this case was a summary judgment [Clk. Tr. p. 186]. A summary judgment is a final judgment and is appealable as such.

*Lamb v. Shasta Oil Co.* (5th Cir., 1945), 149 F. 2d 729.

The summary judgment was signed, filed and entered on September 29, 1967 [Clk. Tr. p. 186], and the appeal was timely taken on November 9, 1967 [Clk. Tr. p. 187], having been taken within sixty days and the United States being a party [Federal Rules of Civil Procedure, Rule 73(a)].

### **Statement of the Case.**

The United States, appellee, sued appellant for \$10,-865.90, alleged to be the sum spent to suppress a fire on national forest land and for interest and costs. The action was in two “counts” or causes of action. The first rested on alleged negligent construction, operation and maintenance of appellant’s electric power transmission line which had been installed on a right-of-way



across the national forest granted to appellant under a so-called Special Use Permit; and the second founded solely upon the alleged fact that the fire was caused by sparks from appellant's power line and without any claim whatever of negligence [Clk. Tr. pp. 2-4].

The "Special Use Permit" was a document, contractual in form, executed by the acting Forest Supervisor on behalf of appellee and by a Vice President on behalf of appellant in 1962. (The clearest copy of the Special Use Permit is set out as Exhibit 1 to the Answer of appellant [Clk. Tr. pp. 15-20] and is printed in this brief as Appendix 1).

Appellant denied negligence and all liability under the second cause of action, denied that appellee had performed the obligations required to be performed by "the contract", assuming the Special Use Permit was a contract, and contended by affirmative defenses that appellee's contributory negligence and voluntary assumption of the risk and hazard of fire barred any recovery otherwise available to the Government [Clk. Tr. pp. 11-14].

After extensive discovery by interrogatory [Clk. Tr. pp. 22-75, 76-79, 84-89] and after some depositions [Clk. Tr. p. 170] the parties stipulated:

1. That the sole governing contract was the said Special Use Permit and that the same was the effective instrument.

2. That the claim of the United States was based *solely* upon the said Special Use Permit and that there was no claim that appellant was negligent or at fault.

3. That the sole issue was whether appellant was liable by reason of its liability without fault pursuant

to its obligations under the “aforesaid contract” (the Special Use Permit).

4. That the damage suffered by appellee proximately resulted from reasonably necessary fire suppression costs; that the fire was electrical in source, and that the source electricity was that being conducted by appellant in its lines [Clk. Tr. pp. 92-93, emphasis and parenthetical expression added].

By a second stipulation the amount of the said damages was agreed to be \$8,224.00 [Clk. Tr. pp. 172-173].

By a series of documents anticipatory of pretrial and filed in conventional manner, the parties extensively stated, pursuant to the foregoing stipulations, the issues to be tried, the contentions of law, the exhibits to be offered, the names of the witnesses to be called, the facts to be proved [Clk. Tr. pp. 141-155, 161-162]. By a joint proposed pretrial conference order, approved both in form and substance by all parties and lodged with the court, the parties agreed that certain facts were admitted, which were specified in detail, and that certain facts were to be contested by evidence (essentially the facts pertaining to the meaning of the contract and to its asserted unconstitutionality). By the said order [Clk. Tr. pp. 164-171] appellee listed fourteen documents, including letters, certificates, a manual and a handbook which it proposed to offer in evidence. Appellant, in said proposed order [Clk. Tr. p. 169] enumerated certain exhibits which it would use under certain circumstances. Appellee proposed to call two witnesses and appellant indicated, depending upon the determination of certain rulings, that it might call as

many as three witnesses. Further discovery was reserved under certain circumstances, and interrogatories and the answers thereto were agreed to be admissible when relevant [Clk. Tr. pp. 169-171].

Pending the anticipated pretrial, appellee filed its Motion for Summary Judgment, contending in substance that appellant was liable to it without fault and even though appellant had been stipulated not to be negligent or at fault in any way and by reason of the contract (said Special Use Permit, Appendix 1) and particularly by reason of the language therein, reading:

“8. The permittee shall pay the United States for any damage resulting from this use.”

The contention was made that the governing law permitted the Department of Agriculture, acting through the National Forest Service, to impose liability without fault upon appellant by contract, that it had intended to do so and had done so by the contract in the instant case; that there was good reason for such imposition in that the transmission of electricity was a special hazard of fire in the forests; that the word “damage” as used in the contract included fire suppression costs; and that the contract was clear as a matter of law [Clk. Tr. pp. 96-117].

Appellant resisted the Motion and filed affidavits, memoranda and contentions of fact and law in opposition thereto [Clk. Tr. pp. 118-140]. The affidavits of appellant (then defendant) were uncontroverted and included allegations directly contrary to the statements of fact, made without verified support, in appellee’s Motion [Clk. Tr. pp. 94-117]. The essentials of these affidavits were:

1. That electricity and electrical transmission were, by appellee's own admissions, an insignificant factor in the causation of forest fires, constituting a minor portion thereof [Clk. Tr. p. 121].

2. That the unverified statement of appellee that an insignificant sum had been paid to appellee for the rights-of-way in question was untrue and specifically in that connection that the sum paid to agencies of the United States Government for rights-of-way in the national forest land of the United States for the calendar year 1962 (the year of the contract in suit) exceeded \$40,000.00 [Clk. Tr. p. 118].

In the course of other proceedings before the court relevant to the decision on the Motion for Summary Judgment, appellant offered to produce, upon a full trial of the action, additional evidence which would establish the factual discrimination of which complaint is here made on constitutional grounds and there was, in substance, the admission by the Government (appellee) that other transmitters of electricity, which were publicly owned or privately owned but publicly financed, were treated more favorably than was appellant here in the very area of contention [Rep. Tr. p. 5].

The Government's contention that the private transmitter of electricity across national forest lands can be made absolutely liable for electrically-sourced fires, even in the stipulated absence of fault, is made in this case for the first time [Rep. Tr. p. 19] and this despite the existence of the language in the contract since 1916 [Rep. Tr. pp. 19-20].

The motive of the Government and the reason for its conduct in this matter is perhaps most clearly revealed in the remark of its counsel in answer to the court's

question, as reported on Page 20 of the Reporter's Transcript:

"The Court: This is the first non-negligent electrically caused fire that has arisen under such a contract, even though it is over fifty years old?"

Mr. Coleman [the Assistant United States Attorney]: So far as I know. I don't know of any other such cases.

I will say this, that probably in the great majority of the cases negligence can be found. I would say that perhaps the fire which occurred in this case wasn't particularly a clearly negligently caused fire. Of course, that is now out of the case since a stipulation has been entered into by the parties."

Appellant's contentions were and remain:

1. That the contract cannot properly be interpreted to impose liability without fault, and in this connection every intendment of interpretation favors a reading which does not so impose absolute liability.

2. That if the contract is interpreted to impose liability without fault, such an interpretation, and the enforcement thereof by action, is unconstitutional in that it discriminates against appellant when a similar obligation is not imposed upon other public utilities similarly situated. This contention rests upon the equal protection content of the Fifth Amendment to the Constitution of the United States. The discrimination is extreme and unreasonable in that there is no factual basis of distinction upon which the Government could reasonably impose a heavier burden upon appellant than upon other like electrical transmitters.

After the Motion for Summary Judgment ruled upon by the Honorable District Court, appellant sought changes in the findings and additional findings consistent with the uncontradicted contentions and affidavits of appellant [Clk. Tr. pp. 175-178]. These the Court, by inaction, declined to make.

### **Specification of Errors.**

#### **I.**

Under the contract (Special Use Permit), the Appellant is liable for the cost of suppressing fires resulting from its use of the national forest whether or not said fires are the result of its negligence or other fault [Clk. Tr. p. 182].

#### **II.**

An interpretation of the said contract to impose liability without fault is not unconstitutional in that it discriminates against appellant, a privately owned utility, when a similar obligation is not imposed upon other public utilities similarly situated [Clk. Tr. pp. 181, 183-184].

#### **I.**

### **Absolute Liability Cannot, as a Matter of Law, Be Imposed Upon Appellant Under the Terms of the Contract and the Contradicted Facts.**

#### **A. Preliminary Statement.**

Under the pleadings and stipulations, the sole issue to be tried by the court was whether under the terms the pertinent contract [Special Use Permit, Clk. Tr. pp. 6-10, 15-19, reproduced more legibly in Appendix 1], including all contractual defenses properly raised, appellant was absolutely liable to appellee for the cost of



extinguishing the fire which resulted, *without negligence or any fault*, from appellant's electrical lines [Clk. Tr. pp. 92-93]. In connection with the presentation of this issue, stipulations and the Government's answers to interrogatories had established beyond contradiction that:

1. The contract, as set forth in the appendix, was accurate in form, duly executed and the only pertinent contract [Clk. Tr. pp. 92-93].

2. The appellee owned the land where the fire occurred [Clk. Tr. p. 92].

3. The fire was electrical in source and the source electricity was that conducted by appellant in its circuit maintained under the said contract [Clk. Tr. p. 93].

4. At no time did any Forest Service official or anyone acting for appellee object, in any way, to the manner of the layout, construction, reconstruction, alteration or maintenance of the electrical circuit, aforesaid, which was the source of the electricity which caused the fire [Clk. Tr. p. 40, interrogatory 15 and answer thereto].

5. At no time did any Forest Service official or anyone acting for appellee object, in any way, to the manner of construction, maintenance or operation of the line, nor object, in any way, to the failure to perform any of the safety precautions provided in the permit [Clk. Tr. pp. 40-41, interrogatory 16 and answer thereto].

6. The appellee never contended that appellant did not have a fire prevention and control plan adequate, in the judgment of the Forest Service, to the risks and hazards of the use in the national forest of the said



electric circuit [Clk. Tr. p. 41, interrogatory 18 and answer thereto].

It is also patent, from an inspection of the verbatim copy of the contract, that it was a contract drafted by appellee and set out on a regular Government printing office form [see Appendix 1].

As is above stated, the answer of appellant had challenged the existence of negligence and had pleaded contributory negligence; but these issues became removed from the case by reason of subsequent stipulation. On the issue of the contract, appellant, however, continued to contend that there was no absolute liability thereunder and relied as well upon the failure of the appellee to perform the obligations imposed upon it by contract. This defense [Clk. Tr. p. 13], of course, was relevant to the action on breach of contract, which turned out to be the only action presented to the court.

The affidavits presented further established, without contradiction, that electricity was not a substantial cause of forest fires, contrary to the unsupported position of appellee that electrical transmission was a so-called "high hazard" to the national forests [Clk. Tr. pp. 120-127].

In this factual atmosphere, therefore, appellant argues as follows.

The concept of absolute liability, an unusual concept in law, means, in perhaps the more common language of lawyers, liability without fault. It is the view of the United States here that so long as the fire was electrical in source and the source was appellant's line [both of which facts are stipulated], appellant is liable to appellee for the cost of extinguishing the fire, regardless

of fault and despite the admitted lack of negligence or fault of any kind. Although, in the court's opinion and in parrying an argument of counsel, the trial court said that we were not faced in this case with a situation where there was what might be deemed an efficient intervening cause, it is, we respectfully argue, manifest that if there is absolute liability without fault, such normally insulating factors pertinent to the law of negligence are totally irrelevant.

In short, if this contract means what the Government says it means, it is an absolute promise to pay and there are no defenses whatever. We submit this is not what the contract says and if it can be properly interpreted so to say, then the imposition of the contract and its enforcement impose an unconstitutional burden upon appellant in light of the dissimilar contractual obligations imposed by the Government upon persons similarly situated. The first question, therefore, is whether the contract, by its terms, imposes such a severe liability. In determining whether such is the case, the contract must be read in light of universally accepted canons of interpretation and the general understanding of the law pertaining to absolute liability.

**B. Absolute Liability Is an Exceptional Situation and Should Rarely Be Determined to Exist and Then Only in the Clearest Case.**

The basic foundation of legal liability at the common law is wrong or fault. This is true whether the formal font is in the rules of law, that is, based on tort; or in the agreement of the parties, that is, based on contract. In either case the fundamental philosophical concept is that the party who is to be penalized in damages must have done wrong, by either failing to

perform his promise or disobeying the rules of convenience and safety which the community has found it necessary to apply.

Holmes, *The Common Law*, 1881, 144-163;

Salmond, *Law of Torts*, 7th Ed. 1924, 11-12;

Smith, *Tort and Absolute Liability*, 1917, 30,

Harv. L. Rev. 241, 319, 409.

This doctrine has found frequent expression in the cases, not the least important of which are those particularly pertinent to this District and Circuit. In *Grace & Co. v. City of Los Angeles* (S.D. Cal. 1958), 168 F. Supp. 344, a water pipe owned by the city burst, allowing a quantity of water to escape and damage plaintiff's coffee. Plaintiff, relying on *Rylands v. Fletcher* (1868), L.R. 3, H.L. 330, contended, in addition to claiming negligence, that defendant was liable without fault or on absolute liability [168 Fed. Supp. at 346]. In denying that the case was one for the imposition of absolute liability, the District Court, quoting the California Supreme Court in *Green v. General Petroleum Corp.* (1928), 205 Cal. 328; 270 Pac. 952, 60 A.L.R. 475 said:

"... [We are led] to the conclusion that the rule that injury may exist without liability is, as has been so well stated by another court, 'contrary to the general rule of liability where injury is caused; and since, in a sense, it is a preference of the rights of one property owner or user over that of another; and since the law is a jealous guardian of the right to lawfully use property without reference or diminution; and since the rule of "sic utere tuo ut alienum non laedas" is of broad and

fundamental importance—the rule which allows such injury without liability therefor is an exception which is and should be narrowly limited and carefully confined.’ ” [168 F. Supp. at 347].

This definitive approach was affirmed *sub silentio* in this Honorable Court [278 F. 2d 771].

The rule that the concept of absolute liability should have a limited application has been expressly applied to the transmission of electricity.

*McKenzie v. Pacific Gas & Elec. Co.* (1962), 200 Cal. App. 2d 731, 736, 19 Cal. Rptr. 628, where earlier cases are collected.

While the California electricity cases are usually tort cases, the conceptual approach is equally applicable in contract wherever a question of interpretation is open.

We think, then, it is demonstrated that a contract should not be lightly interpreted to impose liability without fault and that every intendment is against such interpretation.

**C. Any Ambiguities Caused by the Draftsman of a Contract Must Be Resolved Against That Party.**

It goes almost without saying that an instrument drafted by a party is to be interpreted in case of doubt in favor of the opposite party. [*Narver v. California State Life Ins. Co.* (1930), 211 Cal. 176, 180-181, 294 Pac. 393, 71 A.L.R. 1374; *Logomarsino v. San Jose, etc. Title Ins. Co.* (1960), 178 Cal. App. 2d 455, 464, 3 Cal. Rptr. 80]. Since the Government admittedly drafted this instrument, any conflict of interpretation is to be resolved in favor of appellant. The appellant had no choice of language here. Its option was

simply to accept the contract as drafted or not use the national forest at all.

Act of February 15, 1901; 16 U.S.C. 522.

For practical reasons, the none-use of the national forest was simply impossible.

**D. The Contract Must Be Interpreted, If at All Possible, to Save Its Constitutionality Rather Than Reach an Unconstitutional Result.**

If, of course, absolute liability would make the contract and its enforcement unconstitutional, the contract is to be interpreted as not requiring such absolute liability in order to save the constitutionality of the instrument and the program. No American constitutional doctrine is older.

Alexander Hamilton, *The Federalist*, Numbers 78 and 81 (Modern Library Edition, pp. 506, 522-533).

**E. The Contract Does Not, Within Its Terms, Impose Absolute Liability.**

The Government's case is based solely on Clause 8 of the contract, reading, "The permittee shall pay the United States for any damage resulting from this use." Passing the question which we urged below that this clause is a procedural one, directing payment, and is not a substantive source of an obligation to pay, it should first be noted that nowhere in the contract are the words "absolute liability" or "liability without fault" used. The law knows much damage for which there is no remedy. *Damnum absque injuria* is such a commonplace as to have become a legal maxim. In the absence of the breach of any substantive clause of the contract by ap-

pellant, it does not seem reasonable to construe this direction of payment to require payment without fault. We are not, however, left without further and controlling indications. The contract [Appendix I] imposes detailed duties upon appellant.

Under Paragraph 3, nothing can be developed, laid out, constructed, reconstructed, altered or revised except upon advance approval of the Forest Supervisor.

Under Paragraph 4, the standards of repair, orderliness, neatness, sanitation and *safety* are only those acceptable to the Forestry Department (emphasis added).

Under Paragraph 6, the permittee must comply with all the regulations and laws of governing authority. This includes the regulations of the Departments of Agriculture, all federal, state, county and municipal laws, and these laws and regulations, as the court will undoubtedly judicially notice, constitute literally hundreds of minute safety precautions. For example, General Order 95, the rules for overhead line construction pertinent to the line here in question, promulgated by the California Public Utility Commission under the authority of California law, alone comprise more than 350 pages of safety regulations [Rules for Overhead Electric Line Construction, General Order No. 5, State of California Public Utilities Commission].

Not content with these specific requirements, there are further obligations cast upon appellant by the contract.

Under Paragraph 7, the permittee shall take all *reasonable precautions* to prevent and suppress forest fires (emphasis added).



Under Paragraph 23, the permittee shall clear designated portions of the power line right-of-way and keep them clear as required by the Forest Officer in charge. This includes trimming branches, removing dead snags and trees leaning toward the line and observing other precautions against fire as may be required by the Forest Officer in charge. The clearing width shall be restricted to that necessary for *safe transmission* unless the specification permission of the Forest Supervisor for a greater clearing width is obtained (emphasis added).

Under Paragraph 23, the permittee shall do everything *reasonably within its power* both independently and upon request of the Forest Service to permit and suppress fires on or near the lands to be occupied under the permit during the period of construction (emphasis added).

Under Paragraph 26, the transmission lines shall be designed and constructed in accordance with the accepted standards and specifications of the California Public Utilities Commission by its General Order No. 95, or subsequent orders issued by that commission. The permittee shall place and maintain suitable structures and devices to reduce to a reasonable degree the liability of contact between its power line and other power lines not owned by the permittee and further to reduce to reasonable degree the liability of any structure or wires falling and obstructing traffic or endangering life on highways and roads, in a manner satisfactory to the Forest Service.

Thus, beyond question, the specific detailed duty of appellant was spelled out in the contract, all with the intent that the activity be made as safe and non-haz-



ardous as the most prudent man, in the exercise of the highest standard of care, could make it. Nowhere, however, is it stated that if these obligations are carefully discharged by appellant he is nevertheless liable for any resulting damage, though he has been free of all fault. Would it not have been easy so to say if such were the case.

May we respectfully call the court's attention to Paragraph 7 and Paragraph 8 directly compared.

Paragraph 7 states that the permittee shall take all *reasonable precautions* to prevent and suppress forest fires (emphasis added). Paragraph 8 says, if it means what the Government would have it mean, the permittee shall pay the United States for any damage [resulting from the transmission of electricity whether or not such reasonable precautions are taken and even though the fire does not result from the failure to take reasonable precautions] (bracketed material added). In the absence of any specific language imposing absolute liability, can this contract be reasonably interpreted, in two paragraphs, side by side in number, so inconsistent, to impose such a liability? If Paragraph 8 is interpreted in light of Paragraph 7, there is no absolute liability. If 8 and 7 are deemed to conflict, than 7 prevails, this because 7 is printed and 8 is typed and Paragraph 16 provides, "In the event of any conflict between any of the preceding printed clauses or any provision thereof and any of the following clauses or any provision thereof, the preceding printed clauses will control." Paragraph 8 is typed and followed Paragraph 16 and there can, we think, be no question but that under the very words of the contract itself, as well as under the canons above enumerated, the obliga-

tion cast upon appellant is that of reasonable care, the normal obligation.

The appellant discharged all of its obligations under the contract. The lines not only have been stipulated to have been constructed, maintained and operated without fault, but the interrogatories above quoted establish that during all pertinent periods no fault whatever was found by the Forest Service with any action of appellant, although the contract cast upon it the duty, as well as the right, of correcting any failures in appellant's system or the operation thereof which would tend to be a risk or hazard of fire to the national forest (see the interrogatories above cited).

## II.

### **An Interpretation of the Contract to Impose Liability Without Fault Results in a Denial of Appellant to the Equal Protection of the Laws and, Therefore, a Denial of Due Process of Law.**

#### **A. Preliminary Statement.**

As has been said, the contract should be interpreted not to impose absolute liability if the imposition thereof would produce a constitutional flaw. It is clear that an interpretation imposing only the duty of reasonable care is consistent both with the contract, with ordinary philosophy of law and with the Constitution. The Government treats other identical electrical utilities in different fashion, providing only they are publicly-owned or financed. The Government made it clear that it did not intend to impose absolute liability on publicly-owned or financed utilities. On November 26, 1967 the Forest Service officially issued Circulars Numbers U161 and U202, pertaining to the type of clause to be inserted in utility permits where states, counties,

municipalities or other governmental agencies, as distinguished from investor-owned public utilities, were permittees [Clk. Tr. p. 168] [Copy of official certificate of the Secretary of Agriculture referred to in the transcript set out at length for better legibility as Appendix 2]. In these circulars the Chief of the United States Forest Service ruled:

“It is beyond the authority of officials of states, counties, municipalities or other governmental agencies to accept a permit which so binds [with an obligation of unlimited liability] the political subdivision or agency they represent.” (Bracket added).

“You are authorized to substitute the following clause for standard clause 6 [now clause 8] in permits to states, counties, municipalities or other governmental agencies (Bracket added):

‘The permittee agrees to take all reasonable precaution to avoid damage to timber, young growth and watershed cover and diligently to undertake suppression action in the event of fire resulting from the exercise of the privileges herein granted.’ ”

The Forest Service said that the assumption of absolute liability was beyond the power of officers of states, counties and municipalities; yet, manifestly, under the Supreme Law of the Land Clause [U.S. Const. Art. VI], if the federal regulation imposing absolute liability was constitutional, it would not be beyond the power of state, county, municipal and other public officials to agree to obey the supreme law. Of course, the admission of the Forest Service that its requirements are unconstitutional does not necessarily

make them so, but it does seem oddly provocative of thought upon the subject that the Forest Service itself, despite its claim that it had the power to impose absolute liability under federal statutes and the Federal Constitution and valid federal regulations, would at the same time think that public officials of the states, counties and cities could not agree to obey such a fiat. Thus, it is manifest that the Forest Service sought to treat investor-owned public utilities and public or consumer-owned public utilities, otherwise alike, differently.

**B. The Concept of Equal Protection Is Applicable to the Federal Government.**

The concept of appellant's constitutional argument is that the imposition of the burden of absolute liability upon investor-owned public utilities as a condition of the use of the national forest lands denies those utilities the equal protection of the laws when, in contrast, exactly similar entities, but for their ownership, conducting exactly similar activities, also on the national forest land, are free from such burden. This concept, traditionally thought of in terms of "equal protection" is formally equally a deprivation of due process of law. In short, unequal protection is not due process. Thus, the federal government is equally inhibited, with the states, from such practice. There may have been some doubt of the application of the concept of equal protection to the federal government prior to the school desegregation cases. There can be none now.

In *Bolling v. Sharpe* (1953), 347 U.S. 497, 74 S. Ct. 693, Mr. Chief Justice Warren, speaking for a unanimous court, said:

"The Fifth Amendment, which is applicable in the District of Columbia, does not contain an equal

protection clause as does the Fourteenth Amendment which applies only to the states. But the concepts of equal protection and due process, both stemming from our American ideal of fairness, are not mutually exclusive . . . But, as this Court has recognized, discrimination may be so unjustifiable as to be violative of due process.” [347 U.S. at 499].

After *Bolling*, the concept that “Fourteenth Amendment equal protection”, at least in cases of substantial discrimination, was a part of the Fifth Amendment received increasing recognition in the various federal courts and by the judges and justices thereof.

In *Schneider v. Rusk* (1964), 377 U.S. 163, 84 S. Ct. 187, the Court said:

“Moreover, while the Fifth Amendment contains no equal protection clause, it does forbid discrimination that is ‘so unjustifiable as to be violative of due process’ ”. [377 U.S. at 168].

In Mr. Justice Black’s dissent in *Griswold v. State of Conn.* (1965), 381 U.S. 479, 85 S. Ct. 1678, it is said that:

“[*Bolling v. Sharpe*] merely recognized what had been the understanding from the beginning of the country, an understanding shared by many of the draftsmen of the Fourteenth Amendment, that the whole Bill of Rights, including the Due Process Clause of the Fifth Amendment, was a guarantee that all persons would receive equal treatment under the law.” [381 U.S. at 517, fn. 10].

In a number of District Court and Court of Appeals opinions the matter has become settled.

*N.L.R.B. v. Gene Compton's Corp.* (9th Cir., 1959), 262 F. 2d 653, 636, Footnote 1;

*Pacific Natural Gas Co. v. Federal Power Commission* (9th Cir., 1960), 276 F. 2d 350, 353;

*Fulwood v. Clemmer* (D.C. Cir., 1961), 295 F. 2d 171, 174; There the Court said:

“Though the equal protection clause of the Constitution applies in terms only to the states, ‘it would be unthinkable that the same Constitution would impose a lesser duty on the Federal Government.’ ”

*Howard v. U.S.* (9th Cir., 1967), 372 F. 2d 294, where the Court pointed out that “[t]he present concept of due process stems from our American ideal of fairness in treatment of all.” [372 F. 2d at 301];

*Kennedy v. Commandant* (10th Cir., 1967), 377 F. 2d 339, 344.

Perhaps the matter has been most absolutely stated by Chief Judge Campbell in the Northern District of Illinois:

“Furthermore, the 5th Amendment’s Due Processes Clause, notwithstanding some argument and suggestions to the contrary by counsel in the instant case, has now unequivocally been determined by the Supreme Court to either by inference adopt literally or at very least legally encompass the Equal Protection Clause of the 14th Amendment . . . to hold otherwise would of necessity imply an anomalous circumstance which would in effect per-



mit the Federal Government (which would include the District of Columbia), to violate rights made sacrosanct from similar invasions by the states.”

*Todd v. Joint Apprenticeship Committee* (N.D. Ill., 1963), 223 Fed. Supp. 12, 19.

**C. Application of the Equal Protection Concept of the Due Process of Land Clause to the Federal Government in Exercising Its Jurisdiction Over the Property Which It Holds as Outright Proprietor or as “Trustee for the People.”**

Appellee, of course, owns the national forest. The position of appellee is that this property is held “in trust for all the people.” We think that there is a good deal of question as to whether a trust concept can properly be applied to the proprietorship which the Government has in national forest lands but we do not argue that it is not Government property. We think it is held by the appellee in the same way that the average individual owns his home. Whether it is thus held by the appellee or in some other philosophical concept, it is clear that ordinarily the cases have held that the United States has the same power with reference to the land which it owns as a private individual would have over his own land. The issue, however, in this case is not whether the United States has the power to grant or withhold from public utilities the right to transverse the forest land with electrical transmission or distribution lines. Rather, the issue is whether having decided to grant this privilege to various kinds of public utilities it must treat such grantees equally or at least treat them differently upon a rational basis and not simply upon arbitrary or capricious determinations. We believe that the cases are clear that the Government, in



dealing with its own land and other like property, may not impose restrictions upon a use otherwise granted which are so discriminatory or otherwise unreasonable as to be basically unfair. If such an effort is made, it must be stricken down as lacking in due process. The point has not been dealt with profusely in the cases, as far as our research reveals. This is, perhaps, so because it is rare that the Government would try so to act. Certainly in the last decade, when concepts of fairness have so patently motivated almost every act of the federal government, and where civil rights have never been so much in the public mind, it is not surprising that discriminatory actions have been few. Thus, one would not expect many cases. Such cases as do exist, we submit, are manifestly clear.

The leading decision, and perhaps the clearest, is *Ivanhoe Irrigation District v. McCracken* (1958), 357 U.S. 275, 78 S. Ct. 1174. This is, of course, the famous "160 acre" decision and went to the Supreme Court upon certiorari to the Supreme Court of California. See *Ivanhoe Irr. Dist. v. All Parties* (1957), 47 Cal. 2d 597, 306 P. 2d 824; *Alboncio v. Madera Irr. Dist.* (1957), 47 Cal. 2d 695, 306 P. 2d 894; and *Santa Barbara Etc. Agency v. All Persons* (1957), 47 Cal. 2d 699, 306 P. 2d 875.

In *Ivanhoe*, the Court said, after deciding that, under the Constitution, Congress had the power to manage and dispose of federal property:

"Also beyond challenge is the power of the Federal Government to impose *reasonable conditions* on the use of federal funds, federal property and federal privileges. (cases cited). The lesson of these cases is that the Federal Government may

establish and impose *reasonable conditions* relevant to federal interest in the project and to the over-all objectives thereof." (emphasis added) [357 U.S. at 295].

After announcing these general principles, the Court then, by extensive consideration of the facts involved, determined that the discrimination there effected, whereby federal water could be used on 160 acre farms but not on larger farms, was reasonable and well founded in differences of fact. For example, the court found that one of the purposes of the law was to benefit the most people possible, not the most land possible, and that the limitation insures that the enormous expenditure of money needed to provide the water would not go in disproportionate share to a few individuals with large land holdings. The court further found that there was good reason for the discrimination in favor of the smaller plots in order to prevent the use of the Federal Reclamation Service for speculative purposes, but the court did not for a moment countenance the concept that the discrimination was lawful without even investigating the causes, reasons or need therefor; yet, that is exactly what the court has done in the instant case. By reason of the summary judgment appellant has been wholly precluded from showing at trial that there is not good reason why an investor-owned public utility should bear a heavier burden in exchange for the privilege of using a right-of-way for a transmission line than a consumer-owned, federally-financed public utility or a city-owned public utility should bear for the identical privilege.

Under the contract, as the Government has sought to interpret it and as the court has held proper and under

the summary judgment where appellant has been precluded even from attempting to show the lack of good ground for such discrimination, two parallel electrical lines in the same national forest, technically identical, owned in the one case by Southern California Edison Company and in the other by the Department of Water and Power, may exist only upon highly disproportionate expense levels. Although the fee charged for the use of the land is the same, although technically the lines are identical, although the hazard of fire, if any, from both lines is equivalent, although the rules of administration of the lines and the conditions of safety and the care applied to prevent accident vary not a whit, the appellant must, as a condition of having its line in such place, insure that it pay for any fire resulting from the electricity carried in its lines, but the Department of Water and Power need pay for the damage in the event of an identical fire and loss only if, in the first instance, it was negligent, and, in the second, if the Government was not guilty of contributory negligence, or not bound by any other insulating defense, such as assumption of risk. Surely, such a discrimination is not tolerable, at least in the absence of inquiry as to the reasons therefor. The affidavits of fact filed by appellant in this case went wholly undenied. Appellee did not even offer a conflicting affidavit of any kind nor an affidavit which in any way proved or offered to prove any ground for the discrimination, save only the rather gratuitous assertion that appellant was a profit-making company and the unsupported statement that it knew more about preventing fires than the United States Forest Service. It might have been thought that the most learned of all in this art were the national foresters and it seems unduly modest for

them to claim such superior expertise on the part of appellant, especially in the absence of any verified statement whatever on the subject.

*Ivanhoe*, we think, settles the point that differences in the treatment of identical persons must be reasonable and upon challenge must be subject at least to proof on this score.

The most pertinent of all cases we have found, resting in an almost unbelievable colorful set of circumstances, might be entitled "The Perko Story" and to this series of cases we now turn. We suggest that to a large degree these cases are highly persuasive.

#### **D. The Perko Story.**

The application of the concept of equal protection and fairness, as required by the Fifth Amendment, to the federal government in its control and regulation of the public lands has not received extensive judicial consideration for the reasons aforesaid. Cases with respect to the National Forest Service are also rare and at the time of the argument below were apparently thought by both sides to be non-existent. At least we had not found the series of cases now adverted to and the federal government did not cite them. A very pertinent group of cases, however, does exist and, as above stated, they are, taken together, we submit, most persuasive. The same matter was before the courts on numerous occasions. For the case of convenience we are referring to these cases as "The Perko Cases."

In *United States v. Perko* (D.C. Minn. 1955), 133 F. Supp. 564, the subject matter was the use of a roadway across the Superior National Forest, a wilderness area in Minnesota. Perko and Zupancich had acquired

fee title to certain real estate in an area which later became the so-called "roadless area" of the Superior National Forest. After acquiring this title they had improved the land with buildings and established hunting, fishing and recreational camps and resorts of considerable value. They had operated these resorts successfully for more than fifteen years. By executive order (Number 10092), by statute (the Shipstead-Nolan Act, 16 U.S.C. Section 577; the Thyl-Blatnik Act, 16 U.S.C. Section 577C), by various regulations of the Secretary of Agriculture and the National Forest Service founded upon the said statutes, executive orders, and even upon the Webster-Ashburton Treaty of August 9, 1842, directives had been issued which forbade the flying of aircraft across the area and ultimately prohibited Perko and Zupancich from using a logging road across the area. The matter came many times before the courts and the so-called "air ban" was upheld in *United States v. Perko* (D.C. Minn. 1952), 108 F. Supp. 315; affirmed, *Perko v. United States*, (8th Cir., 1953), 204 F. 2d 446; certiorari denied, 346 U.S. 832; 74 S. Ct. 48. Consistently, the doctrine supporting these decisions was the fact that the proper purpose of Congress was effectuated thereby, the purpose being to create and maintain in this portion of the national forest "the atmosphere of voyageur, Indian legends and the old canoe routes"—in other words, the maintenance of this wilderness area clear of any of the indicia and troubles of modern civilization.

Despite the consistent application of this policy to many would-be users of roads across the area, the National Forest Service, acting for the United States, for reasons not disclosed in the reported cases, granted to a private concern, the Northwest Paper Company, the



right to maintain a private logging road for a distance of about four miles across the lands of the Government. The purpose of the road was solely to permit the paper company to remove timber which it controlled across the area. The road was closed by a gate and keys were provided only to the Northwest Paper Company and to Forest Service officers [133 F. Supp. 564 at 566-567]. After numerous attempts to get to their land with supplies and patrons had been frustrated, Perko and Zupanich sued the Northwest Paper Company and the Forest Service officer involved, in an effort to obtain by injunction the right to use the Northwest Paper Company road, which had been established under the permit above mentioned. Plaintiffs' motion for a temporary injunction was denied in that action [*Perko v. Northwest Paper Co.* (D.C. Minn. 1955), 133 F. Supp. 560]. Thereupon Perko and Zupancich cut the chains which barred the road and moved motor vehicles onto it for the purpose of permitting travel by station wagons and trucks. The United States then brought an action for an injunction prohibiting defendants from operating vehicles in the area and over the road in question.

After holding that the Forest Service was entitled to carry out the policy of maintaining the roadless wilderness area above described, the court said that this plan must be carried out without violation of the Constitution. The court said:

"In carrying out said plan of management the plaintiff must not violate the Constitution and laws of the United States. The Constitution, of course, covers with the shield of its protection citizens of all classes, at all times and under all circumstances. [133 F. Supp. at 569].

While saying that pending litigation the defendants should not take the law into their own hands, the court also said that it

“appreciates the frustration confronting defendants in the shutting off by lawful means of ingress and egress to their property by aircraft followed by their inability to travel to and from their properties over the canoe paths and portages which the Government challenges their right to use by motor vehicle transportation [133 F. Supp. at 569].”

And, further said:

“True, other land owners in the Roadless Area have been using motor vehicles of one sort or another (some of which are capable of traveling over the lakes and streams) and which these defendants feel is an unjustified discrimination against them. This Court appreciates that defendants, under the circumstances, sense that they are being dealt with unjustly and in a manner foreign to American principles.” [133 F. Supp. at 569].

The court held there was nothing unconstitutional in the general plan but cited with approval *City of St. Paul v. Dalsin, Minn.* (71 N.W. 2d 855), which said that an ordinance which was unreasonably oppressive and imposed restrictions upon one class of persons engaged in the particular business which are not imposed upon others engaged in the same business was a violation of the equal protection clause of the United States Constitution. After analyzing the fact situation in the then present case, the court further said:

“Obviously, the Government’s management plan should be administered as equally and uniformly as possible so as to avoid unjust discrimination.” [133 F. Supp. at 570].



Pending the basic determination of the issue after full trial the court then resolved the immediate controversy by permitting the defendants to transport goods along the trails in the roadless area by packhorses, if necessary, but forbade the use of motor vehicles and heavy construction equipment and then suggested that perhaps

“prior to the trial of the instant case on the merits some reasonable means may be arrived at in an attempt to solve the problem of the defendants so that equity will be served.” [133 F. Supp. at 570].

The future course of the case turned out to be most interesting. In 1956 the matter came on for full trial, as is reported in *United States v. Perko* (D.C. Minn., 1967), 141 F. Supp. 372. By this time Perko, one of the parties, “made his peace with the Government, thereby eliminating himself from the instant case” [141 F. Supp. at 373] as suggested by the court in the case reported in 133 F. Supp. 564. As to Zupancich, the other defendant (one of whose employees was snow-bound and marooned for five months as a result of the temporary injunction), the court apparently determined that he could not use motor vehicles and must be content with packhorses, despite the fact that he had been unable as yet to find satisfactory corrals or stables. The meaning of the ruling as to Zupancich is not entirely manifest from the opinion, although the court again noted with dissatisfaction that discrimination was continuing (141 F. Supp. at 374).

The denouncement came in *Bydlon v. United States* (1959), 175 F. Supp. 891. In this case Zupancich and others, contending that the effect of the statutes, regu-

lations, decisions aforesaid had deprived them of property without due process of law, sought compensation for their losses in the Court of Claims. Zupancich was allowed \$30,000. Certain of the judges wishes to make even wider awards, but this much was at least made certain—that either a working agreement was reached with the party so discriminated against as in the case of *Perko*, or proper compensation was made to equalize the burden, as in the case of *Zupancich*. Taking the litigation, then, as a whole, it establishes, we think, beyond question that the Government cannot in the administration of the national forest land discriminate among persons similarly situated in the use of the forest lands without balancing compensation and that in substance is exactly what has been done here. Without even the right to present evidence to show that there is no reasonable basis for treating publicly-owned or financed utilities differently than investor-owned ones and without even a suggestion that compensation be in some manner paid for imposing upon Edison a burden not imposed upon its counterparts, the court has, by extreme remedy, held that the evidence of discrimination was immaterial and irrelevant [Rep. Tr. p. 23] and has precipitately entered judgment upon the severest sort of absolute liability.

The concept of the *Perko* cases was adhered to in *Mackie v. United States* (D.C. Minn., 1961), 194 F. Supp. 306, although in that particular case the plaintiff was denied relief because on the facts he had another mode of access to his property which was not closed by the Government.

**Conclusion.**

For the above reasons, it is respectfully submitted that the judgment in the District Court be reversed.

Respectfully submitted,

ROLLIN E. WOODBURY,  
RICHARD T. DRUKKER,  
HUGH B. ROTCHFORD, and  
CHASE, ROTCHFORD, DRUKKER &  
BOGUST,

*Attorneys for Appellant.*

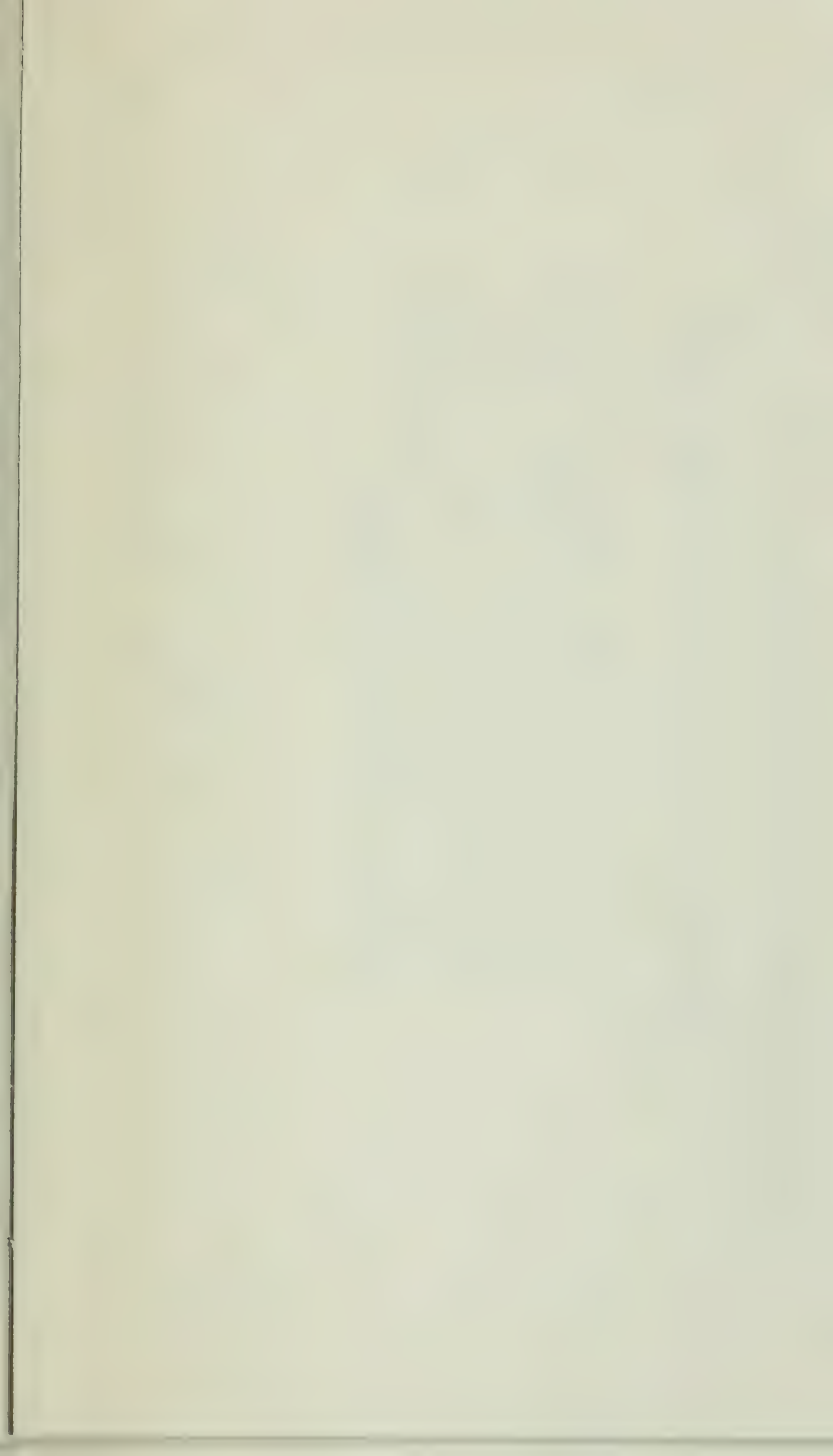


### **Certificate.**

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

HUGH B. ROTCHFORD









## SPECIAL USE PERMIT

Act of June 4, 1897, or February 15, 1901  
This permit is revocable and nontransferable

REGION 5	STATE California	COUNTY San Bernardino	RANGE DISTRICT Cajon	NAME OF PERMITTEE SOUTHERN CALIFORNIA COMPANY	EDISON	KIND OF USE Minor Transmission
DATE OF PERMIT October 8, 1962			FILE CODE 2750 (5600)			

Permission is hereby granted to

SOUTHERN CALIFORNIA EDISON COMPANY

of P. O. Box 351, Los Angeles 53, California

hereinafter called the permittee, to use subject to the conditions set out below, the following described lands or improvements: a right-of-way fifteen (15) feet in width on portions of government land within the following described Townships and Ranges:

T. 1 N., R. 3 W.,	T. 2 N., R. 4 W.,	T. 3 N., R. 5 W.,
T. 1 N., R. 4 W.,	T. 2 N., R. 5 W.,	T. 3 N., R. 6 W.,
T. 1 N., R. 5 W.,	T. 2 N., R. 6 W.,	T. 3 N., R. 7 W., SADM
T. 1 N., R. 6 W.,	T. 2 N., R. 7 W.,	
T. 1 N., R. 7 W.,		

and as shown more particularly on maps on file in the Forest Supervisor's office and such extensions within the same area as are hereafter provided for.

This permit covers \_\_\_\_\_ acres and/or 8.82 miles and is issued for the purpose of:

constructing, maintaining and operating a general power distribution area

The exercise of any of the privileges granted hereby constitutes acceptance of all the conditions of this permit.

1. In consideration for this use, the permittee shall pay to the Forest Service, U.S. Department of Agriculture, the sum of Forty-five and no/100 - 45.00 Dollars (\$ 45.00 ) for the period from January 19 62, to December 31, 19 62, and thereafter annually on JANUARY 1, at the rate of \$5.00 per mile or fraction thereof.

Provided, however, Charges for this use may be made or readjusted whenever necessary to place the charges on a basis commensurate with the value of use authorized by this permit.



use shall be actually exercised at least 505 days each year, unless otherwise authorized in writing.

3. Development plans; layout plans; construction, reconstruction, or alteration of improvements; or provision of layout or construction plans for this area must be approved in advance and in writing by the forest supervisor. Trees or shrubbery on the permitted area may be removed or destroyed only after the forest officer in charge has approved, and has marked or otherwise designated that which may be removed or destroyed. Timber cut or destroyed will be paid for by the permittee as follows: Merchantable timber at appraised value; young-growth timber below merchantable size at current damage appraisal value; provided that the Forest Service reserves the right to dispose of the merchantable timber to others than the permittee at no stumpage cost to the permittee. Trees, shrubs, and other plants may be planted in such manner and in such places about the premises as may be approved by the forest officer in charge.

4. The permittee shall maintain the improvements and premises to standards of repair, orderliness, neatness, sanitation, and safety acceptable to the forest officer in charge.

5. This permit is subject to all valid claims.

6. The permittee, in exercising the privileges granted by this permit, shall comply with the regulations of the Department of Agriculture and all Federal, State, county, and municipal laws, ordinances, or regulations which are applicable to the area or operations covered by this permit.

7. The permittee shall take all reasonable precautions to prevent and suppress forest fires. No material shall be disposed of by burning in open fires during the closed season established by law or regulation without a written permit from the forest officer in charge or his authorized agent.

8. ~~The permittee shall exercise diligence in protecting from damage the land and property of the United States covered by and used in connection with this permit, and shall pay the United States for any damage resulting from negligence or from the violation of the terms of this permit or of any law or regulation applicable to the national forests by the permittee, or by any agents or employees of the permittee.~~ (See attached)

9. The permittee shall fully repair all damage, other than ordinary wear and tear, to national forest roads and trails caused by the permittee in the exercise of the privilege granted by this permit.

10. No Member of or Delegate to Congress or Resident Commissioner shall be admitted to any share or part of this agreement or to any benefit that may arise herefrom unless it is made with a corporation for its general benefit.

11. Upon abandonment, termination, revocation, or cancellation of this permit, the permittee shall remove within a reasonable time all structures and improvements except those owned by the United States, and shall restore the site, unless otherwise agreed upon in writing or in this permit. If the permittee fails to remove all such structures or improvements within a reasonable period, they shall become the property of the United States, but that will not relieve the permittee of liability for the cost of their removal and restoration of the site.

12. This permit is not transferable. If the permittee through voluntary sale or transfer, or through enforcement of contract, foreclosure, tax sale, or other valid legal proceeding shall cease to be the owner of the physical improvements other than those owned by the United States situated on the land described in this permit and is unable to furnish adequate proof of ability to redeem or otherwise reestablish title to said improvements, this permit shall be subject to cancellation. But if the person to whom title to said improvements shall have been transferred in either manner above provided is qualified as a permittee and is willing that his future occupancy of the premises shall be subject to such new conditions and stipulations as existing or prospective circumstances may warrant, his continued occupancy of the premises may be authorized by permit to him if, in the opinion of the issuing officer or his successor, issuance of a permit is desirable and in the public interest.

13. In case of change of address, the permittee shall immediately notify the forest supervisor.

14. The temporary use and occupancy of the premises and improvements herein described may be sublet by the permittee to third parties only with the prior written approval of the forest supervisor but the permittee shall continue to be responsible for compliance with all conditions of this permit by persons to whom such premises may be sublet.

15. This permit may be terminated upon breach of any of the conditions herein or at the discretion of the regional forester or the Chief, Forest Service.

16. In the event of any conflict between any of the preceding printed clauses or any provision thereof and any of the following clauses or any provisions thereof, the preceding printed clauses will control.

17. This permit is accepted subject to the conditions set forth above and to conditions 18 to 32 attached hereto and made a part of this permit.

DATE

October 8, 1962

• CHAIRMAN, COMMISSION ON FOREST SUPERVISOR

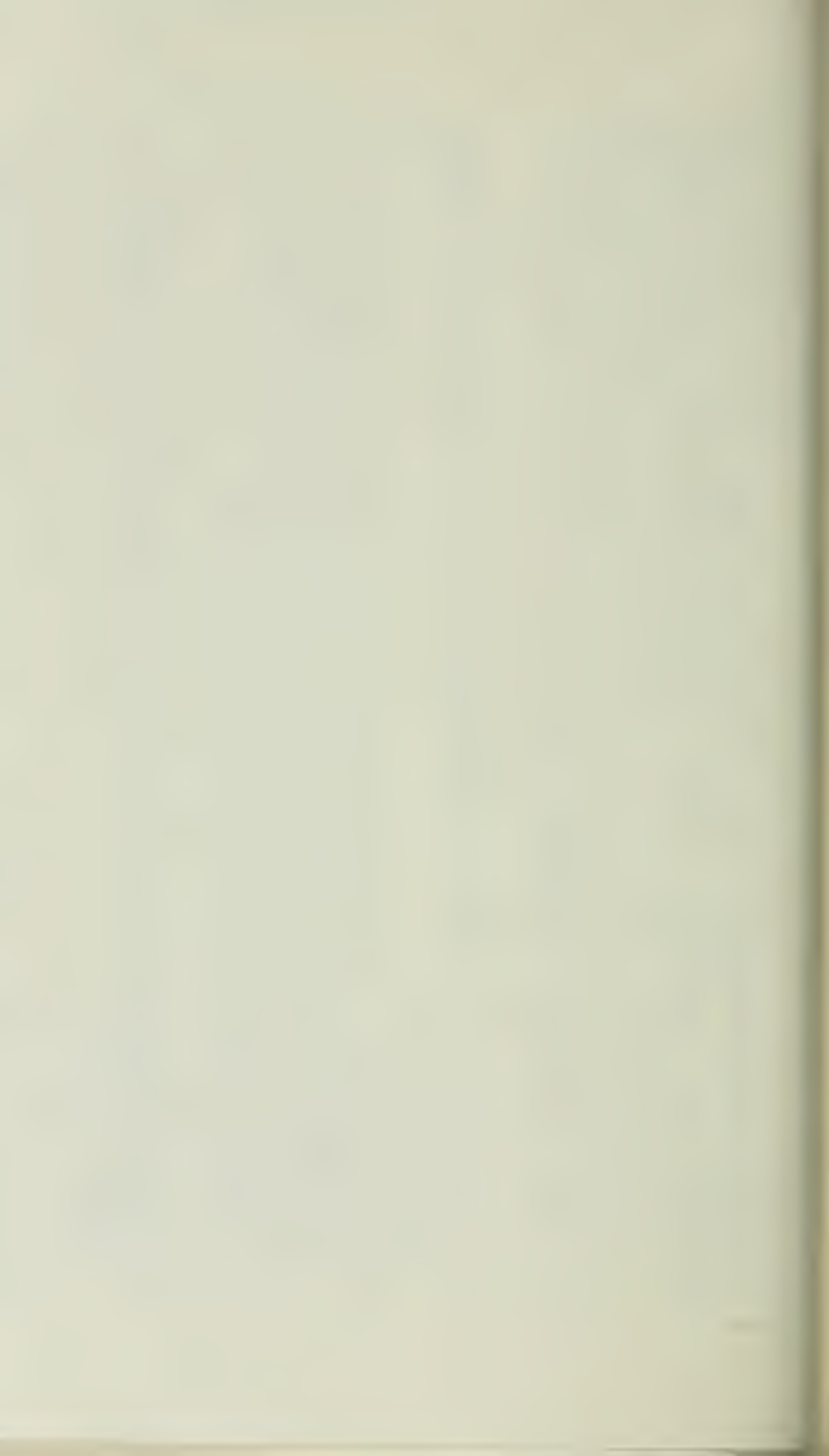
TITLE

Acting Forest Supervisor

By D.M. Tucker

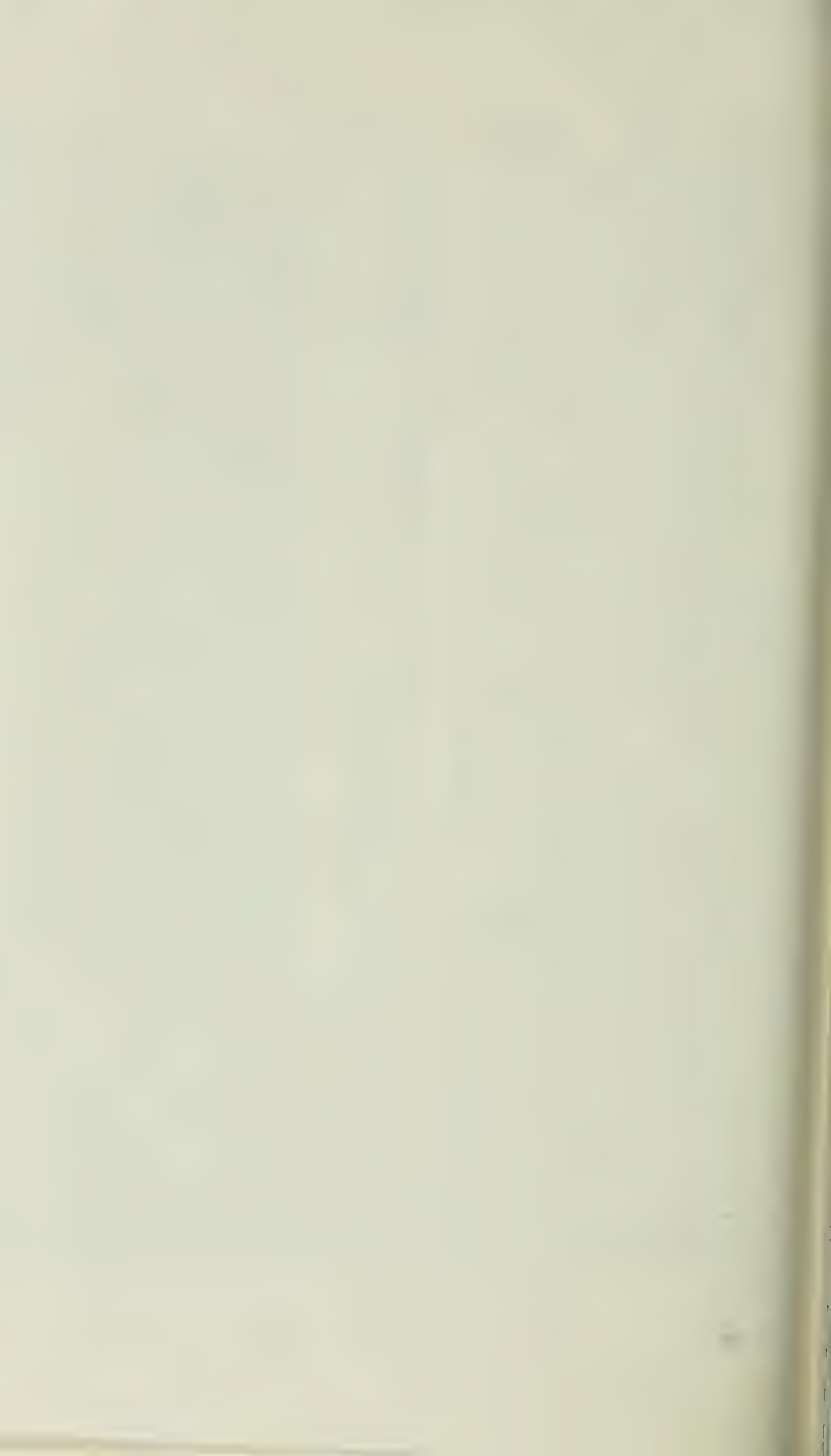


8. The permittee shall leave the United States for any damage resulting from this use.
18. Unless sooner terminated or revoked by the Regional Forester, this permit shall terminate and become void at the expiration of ten years from the date of issuance but a new permit to occupy and use the same National Forest land may be granted provided the permittee will comply with the then existing laws and regulations governing the occupancy and use of National Forest lands of power purposes, and shall have notified the Regional Forester not less than two (2) years prior to said date that such permit is desired.
19. This permit confers no rights upon the permittee to use this right-of-way for purposes other than for the construction, maintenance and operation of a transmission line thereon.
20. Violation of any of the conditions of this permit shall be sufficient cause for its revocation; provided, however, that this permit will not be deemed to be terminated except upon formal revocation thereby by the Regional Forester. Forest Service, or his authorized representative, and not until the permittee shall have had a reasonable time - not to exceed ninety (90) days - within which to show cause why such revocation should not be made.
21. The permittee shall allow, whenever requested by the Forest Officers, a way across the land covered by this permit for the free ingress and egress of Forest Officers and for users of National Forest land and purchasers of National Forest products.
22. The permittee shall allow officers and employees of the United States free and unrestricted access in, through and across the said project and project works, in the performance of their official duties, and shall allow the Forest Service without charge, to construct, or permit to be constructed in, through and across the said project, railroads, chutes, roads, trails, conduits and other means of transportation not inconsistent with the enjoyment of said project by the permittee for the purpose herein set forth.
23. The permittee shall clear designated portions of the power line right-of-way, and keep them clear as required by the Forest Officer in charge; shall trim all branches of trees in contact or near contact with the line and on or adjacent to the right-of-way shall remove all dead snags and all trees leaning toward the line; and which are deemed hazardous or might fall in contact with the line; and shall observe such other precautions against fire as may be required by the Forest Officer in charge; all waste material shall be burned or otherwise disposed of to the satisfaction of the Forest Officer in charge. The clearing width shall be restricted to that necessary for safe transmission unless the specific permission of the Forest Supervisor for a greater clearing width is obtained.
24. The permittee shall do everything reasonably within its power and shall require its employees, contractors, and employees of contractors to do everything reasonably within their power, both independently and upon request of officers of the Forest Service, or other agents of the United States to prevent and suppress fires on or near the lands to be occupied under this permit during the period of construction.
25. A fire prevention and control plan adequate in the judgment of the Forest Supervisor to the risks and hazards of this use shall be prepared and placed in effect by the permittee. This plan shall provide for necessary "standby" fire control equipment, and for the current disposal of trash.





26. The transmission line shall be designed and constructed in accordance with the accepted standards and specifications for transmission lines of similar voltages, capacity and purpose as set forth in the Rules and Regulations of the California Public Utilities Commission, its General Order No. 95 or subsequent orders it may issue before construction takes place. The permittee shall place and maintain suitable structures and devices to reduce to a reasonable degree the liability of contact between its power line and telegraph, telephone, signal or other power lines heretofore constructed and not owned by the permittee, and shall also place and maintain suitable structures and devices to reduce to a reasonable degree the liability of any structures or wires falling and obstructing traffic or endangering life on highways and roads, in a manner satisfactory to the Forest Service.
27. The scenic and aesthetic values of the right-of-way and adjacent land shall be protected as far as possible consistent with the authorized use, during construction, operation and maintenance of the line.
28. The permittee shall make provision, or shall bear the reasonable cost (as determined by the Regional Forester) of making provision, for avoiding inductive interference between any project transmission line or other project work constructed, operated, or maintained under this permit and any radio installation, telephone line, or other communication facility installed or constructed before construction of such project transmission line or other project work, and owned, operated or used by the Forest Service in administering the National Forests and land under its jurisdiction. The foregoing provisions of this article shall also relate to any radio installation, telephone line, or other communication of facility installed or constructed by the United States after construction of such project transmission line or other project work. None of the provisions of this article are intended to relieve the permittee from any responsibility or requirement which may be imposed by other lawful authority for avoiding or eliminating inductive interference.
29. That in respect to the regulation by any competent public authority of the service to be rendered by the permittee, or of the price to be charged therefor, and in respect to any purchase or taking over of the properties or business of the permittee, or any part thereof, by the United States or by any State within which such properties are situated or business carried on in whole or part, or by any municipal corporation of such State, no value whatsoever shall at any time be assigned to or claimed for the permit or for the occupancy or use of National Forest lands granted thereunder, nor shall the permit of such occupancy and use ever be estimated or considered as property upon which the permittee shall be entitled to earn or receive any return, income, price, or compensation whatsoever.
30. Those sections of the right-of-way allowed by this permit which are withdrawn by the Secretary of the Interior under Section 24 of Federal Power Act and designated as a Power Site Withdrawal are subject to use at any time in connection with the development of water power. This permit, therefore, is issued with the specific understanding that it shall not interfere with such development, and may, if necessary, be terminated upon three (3) months notice that in the judgment of the Federal Power Commission the lands occupied are needed for use in connection with the generation of hydro-electric power or any other purpose contemplated by the Acts under which the lands have been withdrawn. It is further understood that the permittee assumes all risks in case it is used for power purposes, and that the permittee can look for no compensation in that event.



31. Extensions as necessary currently may be made to the 11. authorized by this permit under the following conditions: (1) that the extensions are located within the boundaries of the distribution area which will be known as the Lytle Creek Distribution Area; (2) that before November 10 of each year, the permittee will report to the Forest Supervisor the actual mileage constructed to date and submit a map conforming to the requirements of the map forming a part of the application for original permit and showing any changes in location made during the year; (3) that the construction of any such expansion shall not be started until specifically approved in writing by the District <sup>and</sup> until conflicts in rights-of-way with other special uses have been settled; and (4) that power or lighting service to any cabin, house, or other structure within the national forest boundaries will not be started until the wiring of such structures have been approved by the forest supervisor or his authorized representative.

32. This permit shall have no force and effect until the permittee has signified its acceptance of its provisions and conditions by signing below and returning all copies to the Forest Supervisor, 157 West Fifth Street, San Bernardino, California for final approval.

We have read the foregoing permit and agree to accept and abide by its terms and conditions.

SOUTHERN CALIFORNIA EDISON COMPANY

Date: Oct 12 '63

By *J. H. H. H.*  
TITLO VICE-PRESIDENT



United States



of America

DEPARTMENT OF AGRICULTURE RECEIVED

WASHINGTON

*July 12, 1949*  
U. S. ARMY - LANDS DIVISION  
Los Angeles, California

I, ORVILLE L. FREEMAN, Secretary of Agriculture of the United States, pursuant to Title 28, United States Code, Section 1733, do hereby certify that the annexed copy, or each of the specified number of annexed copies, is a true, correct and compared copy of a document in my official custody as hereinafter described:

1. Forest Service Circular No. U-161 dated November 26, 1947.
2. Forest Service Circular No. U-202 dated March 11, 1949.

In testimony whereof I have hereunto caused the seal of the Department of Agriculture to be affixed and my name subscribed in the District of Columbia, this 23rd day of May, 1967.

*Orville L. Freeman*

Secretary

By *Howard Campbell*  
Assistant General Counsel

(Signed pursuant to the authority of 25 F.R. 3136)

A.



UNITED STATES DEPARTMENT OF AGRICULTURE  
FOREST SERVICE

Address Reply to  
CHIEF, FOREST SERVICE  
and Refer to



WASHINGTON 25, D. C.

U  
SUPERVISION  
Policy  
Uses

November 26, 1947

Circular No. U-161

Regional Foresters  
and Director, Tropical Region

Dear Sir:

Standard clause 6 of our special use permit is in effect an unlimited liability clause since it binds the permittee to reimburse the Government for any damage to the United States as a result of the use of Government land by the permittee.

It is beyond the authority of officials of states, counties, municipalities or other governmental agencies to accept a permit which so binds the political subdivision or agency they represent.

You are authorized to substitute the following clause for standard clause 6 in permits to states, counties, municipalities or other governmental agencies:

The permittee agrees to take all reasonable precaution to avoid damage to timber, young growth and watershed cover and diligently to undertake suppression action in the event of fire resulting from the exercise of the privileges herein granted.

Standard clause 6 should be retained in all other permits.

The Manual will be so amended at the first opportunity.

Very sincerely yours,

LYLE F. WATTS, Chief

By





2. Special uses which involve special hazards, usually including such uses as power lines, gas and oil pipe lines, railroads, smelters, or other hazardous uses, should include the following clause ("insurance clause"):

B. Notwithstanding the provisions of other clauses of this permit requiring precautionary measures for the protection of the national forest, the permittee shall pay the United States for any damage resulting from this use, regardless of whether such damage is the result of negligence or of the violation of any of the provisions of this permit or of applicable regulation or law.

This clause is substantially the same as the present clause 6 in its effect but has been reworded by the Solicitor in order to avoid possible legal difficulties arising from the addition of other clauses to the permit.

3. In permits to States, counties, municipalities, or other Government agencies, the following clause may be used.  
Note that this is a broadening of the clause authorized in Circular Letter U-161.

C. The permittee agrees to take all reasonable precaution to avoid damage to property and resources of the United States, and diligently to undertake suppression action in the event of fire resulting from the exercise of the privileges herein granted.

4. It is the responsibility of the regional forester to see that the "insurance clause," B above, is used in cases where it is just and equitable that the United States be fully protected against special hazards.

5. In permits which include clause A or C above, additional damage clauses may be used to protect the United States against specific sources of damage inherent in the particular use authorized.

Note: Special damage clauses are not necessary or desirable when clause B is used, since that clause protects the United States from any damage. With clause A or C it may often be desirable to cover special hazards - either by an additional damage clause or by additional stipulations in the permit which, if complied with, will prevent damage. See manual instructions page NF-H5(7) relating to changing clauses in special use permits.

When Forms 832 and 854 are revised clause A will be made standard, since it is expected that it will be used in the great majority of cases.



The clauses A, B, and C are, of course, conflicting in the amount of liability placed on the permittee and should never be used in the same permit.

In accordance with the above policy, you are authorized to delete present clause 6 in the Special Use Permit, Form 832, and to substitute either clause A or C, in all future permits.

The substitution of clauses for old clause 6 in existing terminable permits presents a problem because the new clauses A and C are less protective and it might be argued that we are modifying a contract to the detriment of the United States. The new clauses should be substituted for clause 6 in the existing terminable, paid permits as of the next payment date and in existing free use permits on the next anniversary of the permit. This may be accomplished by a mimeographed notice, a sample of which is attached. Notices must be signed by a forest officer of equal or higher rank than the one issuing the permit. All notices must be signed; mimeographed signatures are not acceptable.

This procedure differs from the simpler procedure approved for grazing permits (See Circular Letter G-325), because all special use permits will not be amended in the same manner. It is therefore necessary that each amendment be specifically for a certain permit. Otherwise it might be possible for some permittee whose permit should contain clause B to claim that he had received notice that clause A was effective. Every effort was made to adopt the simpler procedure, but it could not safely be done.

If permittees ask about the effect of the change on them it should be pointed out that present clause 6 is an all-inclusive damage clause and subjects them to much more liability than either A or C.

Clause B is just as all-inclusive as old clause 6 and the additional wording is only for technical reasons.

Existing term permits, Form 854, cannot be revised until the term expires, or unless the permit is otherwise legally terminated.

When the present Forms 832 and 854 are revised to include clause A as the standard damage clause, you are authorized to delete it and to substitute clause B or C in accordance with the above policy.

You will be advised by separate letter with reference to the damage clause in grazing permits and application forms.

Very sincerely yours,

LYLE F. WATTS, Chief

By



Attachment



(Designation)

Notice is hereby given that permission granted by the above-designated special use permit shall hereafter be subject to the condition that the following clause is hereby substituted for clause 6 of that permit:

(Quote here clause A, B, or C of Circular  
Letter U-202, as the case may be.)

\_\_\_\_\_  
(Date)

\_\_\_\_\_  
(Title)

P. S.--Permittees desiring additional information about this substitution of clauses and the reasons therefor should write to the forest supervisor or the forest ranger.





UNITED STATES DEPARTMENT OF AGRICULTURE  
FOREST SERVICE

Address Reply to  
CHIEF, FOREST SERVICE  
and Refer to



WASHINGTON 25 D.C.

March 11, 1949

U  
SUPERVISION  
Policy  
Uses

Circular No. U-202

Regional Foresters  
and Director, Tropical Region

Dear Sir:

Reference is made to Circular Letters U-191 and U-161.

The present clause 6, Special Use Permit, Form 832 reads:

"The permittee shall pay the United States for any damage resulting from this use."

This is an unlimited liability clause, commonly called an "insurance clause." It protects the United States against all damage resulting from the use, including damage beyond the control of the permittee.

It does not seem necessary to use this clause in all special use permits. Hereafter, the policy set forth below will govern.

1. The following clause will replace the present clause 6 in the standard Special Use Permit, Form 832, and will also be used in the ordinary Term Permit, Form 854.

A. The permittee will exercise diligence in protecting from damage the land and property of the United States covered by and used in connection with this permit and will pay the United States for any damage resulting from the violation of the terms of this permit or any law or regulation applicable to the national forests by the permittee, his agents, or employees, or through negligence of the permittee, his agents, or employees, when acting within the scope of their employment.

(Over)







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# United States Court of Appeals

For the Ninth Circuit

No. 22495 ✓

PROLER STEEL CORPORATION, INC.,

*Plaintiff-Appellant, .*

*v.*

LURIA BROTHERS & COMPANY, INC., and  
LIPSETT STEEL PRODUCTS, INC.,

*Defendants-Appellees.*

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## BRIEF OF DEFENDANTS-APPELLEES

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McCutchen, Black, Verleger & Shea  
Max K. Jamison and Joseph R. Austin

615 South Flower Street, Suite 1111

Los Angeles, California 90017

690.9000

Brumbaugh, Free, Graves & Donohue

Eben M. Graves and Frederick C. Carver

90 Broad Street

New York, New York 10004

*Attorneys for Defendants-Appellees*

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# TABLE OF CONTENTS

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	PAGE
I. Statement of the Case .....	1
A. Nature of the Action .....	1
B. The Proler Reissue Patent .....	2
C. The Prior Art .....	5
D. The Accused Process .....	6
II. No Controlling Issue of Fact .....	9
III. Summary of the Argument .....	14
A. Aggregation .....	14
B. Noninfringement .....	16
C. Defective Reissue .....	17
IV. Argument .....	18
A. Claim 9 of the Proler Reissue Patent is Invalid for Claiming a Mere Aggregation of Steps Old in the Art .....	18
1. Claim 9 is a Classic Example of Aggregation .....	18
2. The Compacting Step is Old and Both the Compacting Step and the Result Thereof Are Obvious .....	23
B. Appellees' Accused Process Does Not Infringe Claim 9 of the Proler Reissue Patent .....	26
C. Claim 9 of the Proler Reissue Patent is Invalid Because the Invention Claimed Therein is Not the Invention Disclosed in the Original Proler Patent .....	38



	PAGE
1. The Applicable Law .....	38
2. Roasting Is an Essential Step of the Invention Disclosed and Intended to be Covered in the Original Proler Patent	42
D. Claim 9 of the Proler Reissue Patent is Invalid on the Ground that the Defect of the Original Proler Patent Did Not Arise Through Error .....	47
E. Claim 9 of the Proler Reissue Patent is Invalid Because the Record, Including the Oath, Fails to Show Any Error .....	50
V. Summary Judgment Was Properly Granted ..	52
VI. Conclusion .....	54

# TABLE OF AUTHORITIES

	PAGE
<b>Cases:</b>	
Allen v. Standard Crankshaft & Hydraulic Company, 210 F.Supp. 844 (W.D. N.C. 1962), affirmed 323 F.2d 29 (4th Cir. 1963) .....	27
Ballew v. Watson, 290 F.2d 353 (D.C. Cir. 1961) .....	42, 49
Barkeij v. Lockheed Aircraft Corp., 210 F.2d 1, 2 (9th Cir. 1954) .....	54
Bentley v. Sunset House Dist. Corp., 359 F.2d 140 (9th Cir. 1966) .....	21, 22
Bergman v. Aluminum Lock Shingle Corp. of America, 251 F.2d 801 (9th Cir. 1957, rehearing denied 1958) .....	21
Cee-Bee Chemical Co. v. Delco Chemical Co., 263 F.2d 150 (9th Cir. 1958) .....	53
Cuno Engineering Corp. v. Automatic Devices Corp., 314 U. S. 84 .....	22
Daniel v. O. & M. Mfg. Co., 105 F.Supp. 336 (S.D. Tex. 1952) .....	42, 49-50
Dill Mfg Co. v. J. W. Speaker Corporation, 83 F.Supp. 21 (E.D. Wisc. 1949), aff'd, 179 F.2d 278 (7th Cir. 1950) .....	50
Dolgoft v. Kaynar Company, 18 F.R.D. 424 (S.D. Calif. 1955) .....	53
Englehard Industries, Inc. v. Research Instrumental Corporation, 324 F.2d 347 (9th Cir. 1963), cert. denied, 377 U. S. 923, 84 S.Ct. 1220 (1964) .....	53
Fehr v. Activated Sludge, 84 F.2d 948 (7th Cir. 1936)	52
General Radio Co. v. Allen B. DuMont Laboratories, 129 F.2d 608 (3d Cir. 1942), cert. denied, 317 U. S. 654 (1942) .....	51

	PAGE
Graham v. John Deere, 383 U. S. 1 (1966) .. .	24
Great Atlantic & Pacific Tea Company v. Supermarket Equipment Corp., 340 U. S. 147 (1950) .. .	15, 21, 22, 25
Handel, Application of, 312 F.2d 943 (CCPA 1963) ....	46
Henderson v. A. C. Spark Plug Div. of General Motors Corp., 366 F.2d 389 (9th Cir. 1966) .....	53
Hunter Douglas Corp. v. Lando Products, 215 F.2d 372 (9th Cir. 1954) .....	25-26
Indiana General Corp. v. Lockheed Aircraft Corp., 249 F.Supp. 809 (S.D. Calif. 1966) .....	53
Kinnear-Weed Corp. v. Humble Oil & Refining Co., 150 F.Supp. 143 (E.D. Tex. 1956), aff'd 259 F.2d 398 (5th Cir. 1958), cert denied, 361 U. S. 903 (1959) .....	42
Kwikset Locks v. Hillgren, 210 F.2d 483 (9th Cir. 1954), cert. denied, 347 U. S. 989 (1954) .....	25-26, 37
Lincoln Engineering Company of Illinois v. Stewart- Warner Corp., 303 U. S. 545 .....	22
Lockwood v. Langendorf United Bakeries, Inc., 324 F.2d 82 (9th Cir. 1963) .....	41-42, 47, 49, 51
Milcor Steel Co. v. George A. Fuller Co., 316 U. S. 143 (1942) .....	53
Miller v. Brass Co., 104 U. S. 350 (1881) .....	50
Monogram Manufacturing v. Glemby, 136 F.2d 961 (2nd Cir. 1943) .....	45, 46
National Nut Co. v. Sontag Chain Stores, 107 F.2d 318 (9th Cir. 1939) .....	49
Parker and Whipple Co. v. Yale Clock Co., 123 U. S. 87 (1887) .....	38, 39

	PAGE
Rankin v. King, 272 F.2d 254 (9th Cir. 1959)	53
Riley v. Broadway-Hale Stores, Inc., 114 F.Supp. 884 (S.D. Calif. 1953), aff'd, 217 F.2d 530 (9th Cir. 1954)	53
Santa Anita Manufacturing Corp. v. Lagash, 369 F.2d 964 (9th Cir. 1966)	22
Seovill Manufacturing Co. v. Goldblatt Brothers, 362 F.2d 777 (7th Cir. 1966)	41
Sears Roebuck & Co. v. Minnesota Mining & Mfg. Co., 243 F.2d 136 (4th Cir. 1957), cert. denied, 355 U. S. 932 (1958)	42
Stearns v. Tinker & Razor, 252 F.2d 589 (CA 9, 1957)	28
Toledo Pressed Steel Co. v. Standard Parts, Inc., 307 U. S. 350	22
U. S. Chemicals Co. v. Carbide, 315 U. S. 668 (1942), rehearing denied, 316 U. S. 708 (1942)	17, 39-40, 41, 42, 44, 45
United States Rubber Co. v. General Tire & Rubber Co., 128 F.2d 104 (6th Cir. 1942)	27
<b>Rules:</b>	
Fed. R. Civ. P. 56(c)	14
Fed. R. Civ. P. 56(e)	11
United States District Court, Central District of Cali- fornia (1967) 3(g)1	10
United States District Court, Central District of Cali- fornia (1967) 3(g)3	11
United States Patent Office Rule 175	52

	PAGE
<b>Statutes:</b>	
35 U.S.C. § 64 .....	38
35 U.S.C. §102 .....	25
35 U.S.C. §103 .....	15, 22, 24, 25
35 U.S.C. §112 .....	12, 16, 28
35 U.S.C. §251 .....	17, 38, 44, 47
<b>Textbook:</b>	
<i>Commentary on the New Patent Act 44</i> , P. J. Federico (1954) .....	39

# United States Court of Appeals

For the Ninth Circuit

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**No. 22495**

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PROLER STEEL CORPORATION, INC.,  
*Plaintiff-Appellant,*

*v.*

LURIA BROTHERS & COMPANY, INC., and  
LIPSETT STEEL PRODUCTS, INC.,  
*Defendants-Appellees.*

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## BRIEF OF DEFENDANTS-APPELLEES

---

### I. STATEMENT OF THE CASE

#### A. Nature of the Action

This is an appeal from the granting of summary judgment to appellees in a suit brought by appellant for infringement of the Proler reissue patent Re. 25,034 (herein called the Proler reissue patent), issued August 29, 1961 (A. 5a; R. 335).\*

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\* Throughout this brief A. designates the page of the appendix which accompanies this brief, R. the page of the record on appeal and FF the findings of fact of the Court below.

The Proler reissue patent is for a process for producing fragmentized ferrous scrap, principally from old automobiles. Appellees have since September 1963 produced a fragmentized ferrous scrap called Lurmet at their plant in Vernon, California. Appellant charges that the process used to manufacture Lurmet since but not prior to May 1965 infringes process claim 9 of the Proler reissue patent (R. 56).

Claim 9 is for a process and not a product. The fragmentized ferrous scrap, Lurmet, is not charged to infringe claim 9 or any other claim of the Proler reissue patent.

Appellees' motion for summary judgment was briefed, argued on September 18, 1967, and granted on September 27, 1967, with findings of fact and conclusions of law (A. 20a; R. 610). Appellant then moved for reconsideration. The motion for reconsideration was briefed, argued on November 20 and 21, 1967, and denied after the close of argument (see A. 33a).

## **B. The Proler Reissue Patent**

The Proler reissue patent (A. 5a; R. 335) is a reissue of now surrendered U. S. patent No. 2,943,930 (appellant's Ex. Y, herein called the original Proler patent), issued July 5, 1960, on an application which was a continuation of an abandoned application Serial No. 677,514 (herein called the abandoned Proler application), filed August 12, 1957.

The abandoned Proler application, the original Proler patent and the Proler reissue patent all describe in very general terms a process for upgrading raw ferrous scrap



using conventional equipment. The process includes the steps of shredding the raw ferrous scrap in a hammermill, separating the ferrous fragments from the nonferrous material using a magnetic separator, roasting the ferrous fragments in a furnace or kiln at a temperature in the range of 1300° F. to 1800° F. to burn off adhered nonferrous material, and compacting the ferrous fragments, preferably while still hot, between rolls to increase the density.\* The process also includes as optional steps, trommeling the scrap after roasting and before compacting and a second magnetic separation after compacting (A. 5a, column 2, line 50, and column 3, line 8; R. 335).

Appellant does not assert that the hammermill, magnetic separator, furnace or rolling mill is novel. On the contrary, in response to an interrogatory appellant stated that the steps of the process could be practiced using a hammermill, a magnetic separator, a furnace and a rolling mill which were conventional at the time that the Proler process was conceived (R. 48-49).

All of the process claims filed and prosecuted in the abandoned Proler application and in the continuing application which issued as the original Proler patent recited the roasting step (R. 360-482).

During the prosecution of the abandoned Proler application and the application which issued as the original Proler patent the roasting step was characterized by ap-

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\* A reduction in size of the fragments results in an increase in "density", that is, the weight of a cubic foot of scrap fragments. If the pieces are smaller more of them can be placed in a cubic foot unit because they fit together more snugly with fewer interstices.

pellant's attorneys as "of major importance" in the process (R. 436), "to a large extent responsible for the tremendous commercial success" of the process (R. 396), and a step which distinguished the Proler process from the prior art patents (R. 379-401; 435-473). Some of the statements emphasizing the importance of the roasting step are set forth in FF 2.3 (A. 21a-24a; R. 611-615). All of the process claims which issued in the original Proler patent were limited to a process which included the roasting step.\*

Five months after the original Proler patent issued, Proler filed an application to reissue the patent and broaden it by the addition of claims 9 and 10 which were not limited to a process which included the roasting step.

Claim 9 of the Proler reissue patent, the only claim which appellant charges is infringed, describes a process for refining raw ferrous material comprising

- 1) "shredding the raw material,"
- 2) "separating the more ferrous bearing shredded material from the less ferrous bearing shredded material" and
- 3) "individually compacting and balling up the pieces of the more ferrous bearing shredded material to densify it while maintaining the individuality of the separate pieces, whereby a fluent mass is obtained."

The step 1 describes the ordinary function of a conventional hammermill in fragmentizing raw ferrous scrap; the step 2 describes the ordinary function of a conventional magnetic separator in separating the ferrous frag-

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\* Claims 1 through 8 of the Proler reissue patent.

ments from the nonferrous material; and the step 3 describes the ordinary function of a set of conventional rolls for compacting between them those fragments that are malleable (R. 48-49).

### **C. The Prior Art**

The prior art relied on by appellees in support of their motion for summary judgment is conceded by appellant and raises no issue of fact.

There is no dispute between the parties that hammer-mills, magnetic separators and rolling mills were well known to scrap processors long before April 1957, the alleged date of the conception of the process of the Proler reissue patent.

The steps of shredding or fragmentizing raw automobile scrap in a hammermill and then magnetically separating the ferrous fragments from the nonferrous material are steps which had been practiced by the Los Angeles By-Products Company of Los Angeles, California, during the 1930s and 1940s (R. 54; appellant's brief p. 12). To be sure, the Los Angeles By-Products Company also generally compacted the fragmentized scrap in bales, but only after first producing a clean, fragmentized ferrous scrap.

The Los Angeles By-Products process is described in the Gregg patent No. 2,059,229 (A. 7a; R. 339) for "Method of Preparing Discarded Automobile Fenders and Similar Material for Melting Purposes" issued November 3, 1936, and assigned to the Los Angeles By-Products Company.

The Gregg patent discloses a method for preparing "a clean high-grade scrap iron" (A. 7a, page 1, column 1, lines 35-36; R.339) from "old discarded automobile bodies" (page 1, column 2, line 6), among other scrap metal, for use in the manufacture of steel. The process described in the Gregg patent includes, *inter alia*, the steps of a) shredding or fragmentizing automobile scrap in a hammer-mill, b) magnetically separating the ferrous fragments from the nonferrous material, and c) either discharging the ferrous fragments "into a suitable storage bin" (page 2, column 2, lines 1 and 2) or delivering them to a hopper and compacting them in a baling press.

Scrap processors were also familiar with the use of rolls for compacting ferrous scrap. Sam Proler, the patentee and president of appellant, testified that he was familiar with rolls and their function prior to making the invention, and he described how his company had used rolls commercially prior to 1956 for compacting scrap cans prior to shredding in a hammermill and then magnetically separating the ferrous from the nonferrous material (Proler dep. pp. 173-175; R. 542; appellant's brief pp. 21-22).

#### **D. The Accused Process**

There is no material issue of fact raised by appellant in regard to the accused process.

The commercial operation of appellees' plant in Vernon, California, began in September 1963. At first the process included the steps of shredding or fragmentizing raw ferrous scrap in a hammermill, magnetically separating the ferrous fragments from the nonferrous material, and then

separating the larger pieces from the smaller pieces to produce a higher density product and a lower density product. After a few weeks appellees eliminated the step of separating the larger and smaller fragments and produced a single fragmentized scrap product (R. 266-267).

Appellees' process did not and never has included a roasting step.

Appellant has not charged that the process practiced by the appellee prior to May 1965 infringes the Proler reissue patent (R. 56). Appellant claims that the appellees' process as practiced from May 1965 infringes the process of claim 9 of the Proler reissue patent.

The chart (A. 3a; R. 340) illustrates schematically and compares the Proler process as set forth in claim 9, appellees' process prior to April 1965 and appellees' accused process from May 1965.

During the period prior to May 1965 appellees were in regular commercial production and sold their fragmentized scrap, Lurmet, but they were also constantly experimenting with modifications in apparatus and procedures with the object of minimizing costs. One cost problem in all hammermill operations, whatever their use may be, is the tremendous wear within the hammermill on the shredding hammers, the grates and the breaker plates, as well as other parts. In fragmentizing or shredding scrap iron these wear problems are particularly serious (A. 8a; R. 343).

During the operation prior to May 1965 one area of experimentation by appellees was with grate openings of different sizes. The grate is essentially a massive screen at the bottom of the hammermill through which scrap fragments are discharged after fragmentization. The grate, for example, is identified in the drawings of the Proler reissue patent by the reference numeral 12 (A. 5a; R. 335). Appellees' experiments confirmed that the density of Lurmet could be controlled by the size of the grate openings—the density increasing with grates having smaller openings and decreasing with grates having larger openings. Appellees also found, as would be expected, that overall wear in the hammermill increased with the smaller grate openings and decreased with the larger openings (A. 9a; R. 343).

In April 1965 appellees installed in their hammermill a grate having comparatively larger openings and simultaneously began separating the larger fragments from the product and recycling these through the same hammermill for further fragmentizing and subdivision. As a result of this change appellees confirmed that they were able to improve the efficiency of the hammermill in the production of Lurmet while maintaining the density of the product in the desired range. The tendency to over-reduce the size of some of the fragments in the hammermill when equipped with smaller grate openings was eliminated and wear, breakage and down time were minimized (A. 9a; R. 343).

Appellant's position on infringement must be that the operation of the hammermill on the recycled pieces is the same as or the equivalent of the function of the rolls in



the Proler process, namely, the function of "individually compacting and balling up the pieces of the more ferrous bearing shredded material to densify it while maintaining the individuality of the separate pieces."

Appellees do not deny that there may be some compacting of the malleable pieces of scrap in the hammermill during both the first pass and on recycling. The action of hammers on the malleable material being shredded may produce some crumpling and compacting effect. Appellees, however, have shown by uncontroverted tests that their hammermill, as would be expected, further fragmentizes and subdivides the pieces of ferrous scrap recycled therein, thereby destroying the individuality of the separate pieces (A. 10a; R. 345; Burlingame dep. of June 1, 1966, pp. 12, 13 and 37). This operation is in contrast to the function of the rolls in the Proler reissue patent which compact the pieces of ferrous material to increase its density "while maintaining the individuality of the separate pieces."

## II. NO CONTROLLING ISSUE OF FACT

The Court below granted summary judgment to appellees on each of the following grounds:

1. Claim 9 of the Proler reissue patent is invalid because it recites nothing more than the known functions of old apparatus;

2. Appellees' accused process does not infringe claim 9 of the Proler reissue patent;



3. Claim 9 of the Proler reissue patent is invalid because the invention claimed therein is not the invention disclosed in the original patent;

4. Claim 9 of the Proler reissue patent is invalid because the defect of the original Proler patent did not arise through error; and

5. Claim 9 of the Proler reissue patent is invalid because the record, including the oath, fails to show any error.

The questions on appeal are 1) whether appellant has shown that the Court below resolved any issue of material fact or failed to consider any material fact in granting the summary judgment, and 2) whether summary judgment was properly granted on the basis of the undisputed facts.

Appellant has not raised any controlling issue of fact either in opposition to the motion for summary judgment or in the brief on appeal. The controlling facts are either conceded by appellant or are irrefutable on the basis of the record.

The material facts on which appellees have relied were submitted with their motion for summary judgment as required by Rule 3(g) 1. (A. 37a) of the Rules of the United States District Court for the Central District of California (1967). The material facts were all supported by depositions of the parties, particularly of Sam Proler, the patentee, and appellant's answers to interrogatories, supplemented by the Derlacki and Hassialis affidavits (A. 8a, 10a; R. 342, 345).

Appellant responded both in the Court below and in its brief on appeal by mere allegations that genuine issues

exist without detailing any specific fact issue that would be controlling on the motion for summary judgment, by objections to the form or materiality of the undisputed facts, and by setting forth issues which are either irrelevant to the grounds on which summary judgment was granted or are framed in such broad and general terms that they fail to bring into issue any of the specific material facts relied on by appellees and adopted by the Court below.

Appellant has not set forth by affidavit or otherwise any specific fact showing that there is a genuine issue for trial as required by Rule 56(c) FRCP (A. 36a). Moreover, appellant has not shown the existence of any controlling fact which if resolved favorably to it would have barred summary judgment for appellees.

Rule 3(g)3. of the local rules of the Court below states:

“3. In determining any motion for summary judgment, the Court may assume that the facts as claimed by the moving party are admitted to exist without controversy except as and to the extent that such facts are controverted by affidavit filed in opposition to the motion” (A. 37a).

Appellant has not controverted the material facts relied on by appellees by affidavit. These facts, therefore, may be deemed admitted by appellant.

A careful analysis of appellant's position shows that the real controversy between the parties is not with regard to the material facts relied on by the Court in granting summary judgment but to the legal conclusions made by the Court on the basis of the undisputed facts.

The Court's FF 1.1, 1.2, 1.3, 1.4, 2.1, 2.3, 2.4, 2.6, 3.1, 3.2, 4.1, 4.2, 4.5 and 4.6 are not disputed.

Although disputed, FF 3.3 and 3.5 are admitted in appellant's brief (page 12 and pages 21, 22 and 29, respectively).

FF 3.6 is not disputed, but it is alleged that Proler was testifying about tamping, not the function of rolls. The objection ignores the fact that Proler was equating tamping and the function of rolls, and that these functions are equated in appellant's brief (page 53).

Appellant disputes FF 4.3 on the basis that all Lurmet produced by appellees before and after May 1965 was not of the same density. The finding does not state that the densities were at all times identical but only that they were in the same range. The finding is accurate, consistent with the record and supported by the Derlacki affidavit (A. 8a; R. 343).

Appellant objects to FF 4.4 on the ground that it misstates the charge of infringement. As a matter of law, 35 U.S.C. §112 (A. 34a) requires that the compacting step of claim 9 be interpreted to cover the function of rolls or their equivalent. As a matter of law, unless the function of appellees' hammermill on recycled scrap is the same as or the equivalent of the function of the compacting rolls in appellant's patented process, appellees' process cannot be held to infringe claim 9.

Appellant disputes FF 4.7 because it states that the function of appellees' hammermill is to shred and sub-

divide the pieces of scrap, thereby destroying the individuality of the pieces. The statement is supported by the uncontroverted Hassialis affidavit (A 10a; R. 345; see also Burlingame dep. of June 1, 1966, p. 37). Moreover, the function of the hammermill in the Proler reissue patent is to shred and subdivide the pieces of scrap, so that it is not surprising that appellees' hammermill functions in the same manner.

The correctness of the remaining findings which are disputed, i.e., FF 2.2, 2.5, 2.7, 3.4, 3.7 and 4.8, can be verified by reference to the Proler reissue patent (A. 5a; R. 335), the history of its prosecution (R. 360-517), and the disclosure of the Gregg patent (A. 7a; R. 339).

Appellees do not endorse as accurate all of the contentions set forth in appellant's brief. Appellant in its brief makes many self-serving contentions which the Court below recognized are not controlling on the propriety of the summary judgment even if resolved favorably to appellant.

The Court below correctly concluded that the posture of this case at the time of adjudication showed that there was no need to take testimony upon the questions of validity and infringement. The controlling facts were of record and were not at issue. Appellant had not raised any specific fact controlling on summary judgment and with respect to which there was an issue. The papers submitted to the Court below established that on the issues of validity and infringement the problem is essentially one of applying legal standards to the uncontroverted controlling facts before it.

This case comes squarely within the prerequisite for summary judgment set forth in Rule 56(c) FRCP:

“The judgment sought shall be rendered forthwith if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law” (A. 36a).

### **III. SUMMARY OF THE ARGUMENT**

Appellant has not challenged any controlling fact on which appellees have relied in support of their motion for summary judgment. Appellant's challenge to the summary judgment is to the legal conclusions which the Court has reached on the basis of these facts.

#### **A. Aggregation**

The parties are in agreement that 1) the first two steps of the claim 9 process, namely, fragmentizing raw ferrous scrap in a hammermill and then magnetically separating the ferrous pieces from the nonferrous material are old (R. 38, 39, 385); 2) that compacting rolls are old and that ferrous scrap cans have been compacted between rolls prior to the steps of shredding the cans in a hammermill and then magnetically separating the ferrous from the nonferrous material (Proler dep. pp. 173-175; R. 542; appellant's brief, pp. 21-22); and 3) that the third step of the Proler process can be carried out using rolls that were conventional prior to the alleged invention (R.49). The dispute between the parties is whether on the basis of

these facts the Court properly concluded that claim 9 is invalid.

Although admitting that the first two steps of the claim 9 process are old, appellant argues that appellees have not shown that the third step is old. Surely appellant cannot assert that Sam Proler was the first ever to compact a piece of malleable ferrous scrap. Appellant must argue that the third step of the process is novel because it has never been practiced *seriatim* following the two admittedly old steps.

The process of claim 9 is invalid as an obvious aggregation of steps old in the art, irrespective of whether or not the compacting step has ever before been practiced *seriatim* with the first two steps by the same person in the same process. The doctrine of aggregation applies to a new combination of old steps when the steps fail to cooperate to produce anything more than an obvious or expected result.

The compacting step of claim 9 is nothing more than the usual function of conventional rolls. Since rolls and their compacting function on malleable material are well known and a matter of common knowledge, not only to scrap processors but to laymen as well, it is clear that to combine the ordinary compacting function of rolls with two admittedly old steps is obvious under 35 U.S.C. §103 (A. 34a) and fails as a matter of law to meet the "severe test" of *Great Atlantic & Pacific Tea Company v. Supermarket Equipment Corp.*, 340 U. S. 147 (1950) (hereinafter referred to as the *A & P* case) and the many other cases pertaining to the law on aggregation.



## B. Noninfringement

On the issue of noninfringement appellant is riding on the horns of a dilemma. After conceding that the processing of ferrous scrap in a hammermill is old, appellant, to establish infringement under 35 U.S.C. §112 (A. 34a), must rely on this step as the equivalent of the compacting step performed by the conventional rolls disclosed in the Proler reissue patent.

Appellees do not use rolls to compact the malleable pieces of fragmentized scrap as in the Proler process, but appellant charges that the recycling of only the larger pieces of fragmentized scrap through the same hammermill performs the compacting function of conventional rolls. Appellant's argument conveniently emphasizes the fragmentizing function of the hammermill and ignores the compacting function on scrap which passes but once through the hammermill, and emphasizes the compacting function and ignores the fragmentizing function on the recycled scrap which passes simultaneously through the same hammermill.

If a crumpling and mashing function of the hammermill accompanies the fragmentizing operation and if it is the same as or equivalent to the third step of claim 9, which purports to be the function of ordinary rolls, then surely it follows that this step is old because appellant has conceded that it is old to process ferrous scrap in a hammermill. If the step is old, then claim 9 must be held both invalid and not infringed by appellees' process.

But the third step of claim 9 specifies that the compacting action is carried out "while maintaining the individ-



uality of the separate pieces'' of ferrous scrap, language which is descriptive of the compacting function of rolls but not of the fragmentizing or subdividing function of a hammermill. Moreover, it is evident on the face of the Proler reissue patent and from the testimony of Sam Proler, the patentee, that the functions of hammermills and rolls are clearly not equivalent. On these facts the Court below concluded as a matter of law that appellees' process did not infringe claim 9 of the Proler reissue patent.

### C. Defective Reissue

Appellees rely on the histories of the prosecution of the abandoned Proler application, the original Proler patent and the Proler reissue patent as support for their position that the roasting step was described and emphasized as an essential step of the process prior to the application for the Proler reissue patent.

The Court below was certainly far more competent than a jury\* to examine the record of these Patent Office proceedings and determine whether, within the meaning of the reissue statute 35 U.S.C. §251 (A. 34a), claim 9 is for the same invention disclosed in the original Proler patent as that provision has been interpreted in the case of *U.S. Chemicals Co. v. Carbide*, 315 U.S. 668 (1942) (hereinafter referred to as the *U.S. Chemicals* case).\*\* The Court properly concluded that in omitting the essential roasting step claim 9 is not directed to the invention disclosed in and intended to be covered in the original Proler patent.

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\* Appellant had demanded a jury trial.

\*\* \*\*\* \* it is the duty of a court to determine for itself, by examination of the original and the reissue, whether they are for the same invention." *U. S. Chemicals* case, p. 678.

Similarly, the Court was competent to determine whether on the basis of the record there was "error" within the meaning of the reissue statute, and to pass on the legal effect of the reissue oath. The Court below properly determined that there was no error and that the reissue oath was defective on the basis of that record.

#### IV. ARGUMENT

##### A. Claim 9 of the Proler Reissue Patent Is Invalid for Claiming a Mere Aggregation of Steps Old in the Art

###### 1. Claim 9 Is a Classic Example of Aggregation

Claim 9 of the Proler reissue patent merely strings together an aggregation of old steps, namely, the shredding function of a conventional hammermill, the separating function of a conventional magnetic separator, and the compacting function of conventional rolls.

This is not in dispute. Appellant concedes it, as shown by appellant's responses to appellees' interrogatories 10 B, D and E (R. 48, 49) which are as follows:

"B. Could the process of the patent in suit be practiced using as the hammermill 11 one that was conventional at the time of the alleged invention by the patentee?

*Response*

Yes.

"D. Could the process of the patent in suit be practiced using as the magnetic separator 16 one that was conventional at the time of the alleged invention by the patentee?

*Response*

Yes.

“E. Could the process of the patent in suit be practiced using as the rolling mill 19 one that was conventional at the time of the alleged invention by the patentee?

*Response*

Yes.”

The ordinary functions of hammermills, magnetic separators and rolls on ferrous scrap have long been known and used in the processing of ferrous scrap before April 1957, the alleged date of conception of the process of the Proler reissue patent.

The steps of shredding or fragmentizing raw automobile scrap in a hammermill and then magnetically separating the ferrous fragments from the nonferrous material are steps which have been practiced by the Los Angeles By-Products Company during the 1930s and '40s (R. 54; appellant's brief p. 12). The Los Angeles By-Products Company produced a clean, fluent, fragmentized scrap before subjecting it to a baling operation.

The steps of fragmentizing scrap in a hammermill and then magnetically separating the ferrous pieces from the nonferrous material are also described in the prior art Gregg patent (A. 7a; R. 339). The clean, fluent, fragmentized scrap was described as either stored in a bin or compacted by a baling operation.

The third step of the Proler process, namely, the compacting of the individual pieces, is also old. Appellant's position is that this step can be carried out not only by a set of conventional compacting rolls but also by tamping (appellant's brief p. 53). It is a matter of record that

scrap processors, including appellant, were familiar with the use of rolls in compacting malleable ferrous scrap prior to the Proler process. Sam Proler, the patentee and president of appellant, had no hesitation in admitting that he was familiar with rolls and their function prior to making his invention, and in his deposition described the rolls used commercially by appellant prior to 1956 for compacting scrap cans by flattening prior to shredding in a hammermill and then magnetically separating the ferrous from the nonferrous fragments (Proler deposition pages 173-175; R. 542; appellant's brief pp. 21-22).

The compacting and balling up function of the rolls 19, as recited in the third step of claim 9 of the Proler reissue patent, is the ordinary flattening and compressing function of conventional rolls. Proler so testified at page 191 of his deposition:

“Q. So flattening, in your mind, is the same as balling up; is that right? A. If it increases the density by decreasing the size of the piece.

Balling up may not be making it perfectly flat, but making it smaller in size, the piece itself, than it was, before you did anything to it.”

The first two steps of fragmentizing in a hammermill and then magnetically separating the ferrous pieces from the nonferrous material are admittedly old (R. 38, 39, 385). The third step of passing the ferrous pieces through conventional compacting rolls produces no new, unusual or surprising result. The result is compaction, the age-old function of rolls.

It has long been recognized that the mere combination of old elements or steps which perform or produce in the

combination no new or different function or operation than that heretofore performed or produced by them individually is a mere aggregation of old elements and not a patentable invention. Claims reciting a mere aggregation of old steps or elements are invalid as a matter of law.\*

The improbability of finding invention in a combination of old elements is stated in the *A & P* case at 152-153:

“Courts should scrutinize combination patent claims with a care proportioned to the difficulty and improbability of finding invention in an assembly of old elements. The function of a patent is to add to the sum of useful knowledge. Patents cannot be sustained when, on the contrary, their effect is to subtract from former resources freely available to skilled artisans. A patent for a combination which only unites old elements with no change in their respective functions, such as is presented here, obviously withdraws what already is known into the field of its monopoly and diminishes the resources available to skillful men. This patentee has added nothing to the total stock of knowledge, but has merely brought together segments of prior art and claims them in congregation as a monopoly.”

For a combination of old steps or elements to be held patentable the combination must produce in some way or manner a surprising or unusual result which would not

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\* In the *A & P* case Mr. Justice Douglas stated in his concurring opinion at page 155:

“The standard of patentability is a constitutional standard; and the question of validity of a patent is a question of law.”

See also *Bergman v. Aluminum Lock Shingle Corp. of America*, 251 F.2d 801, 803 (9th Cir. 1957, rehearing denied 1958); *Bentley v. Sunset House Dist. Corp.*, 359 F.2d 140, 144 (9th Cir. 1966).

have been expected by a person having ordinary skill in the art, and these elements or steps must perform an additional and different function in the combination than they performed out of it. *Lincoln Engineering Company of Illinois v. Stewart-Warner Corp.*, 303 U. S. 545, 549; *Toledo Pressed Steel Co. v. Standard Parts, Inc.*, 307 U. S. 350; *Cuno Engineering Corp. v. Automatic Devices Corp.*, 314 U. S. 84; *A & P* case, pages 151-152.

Stated another way, “\* \* \* only when the whole in some way exceeds the sum of its parts is the accumulation of old devices patentable.” *A & P* case, page 152.

This test, labeled “severe” by the Supreme Court in the *A & P* case (page 152), has been consistently applied in this circuit. *Bentley v. Sunset House Dist. Corp.*, 359 F.2d 140, 144 (9th Cir. 1966). The “severe test” has been characterized as more exacting than the condition of 35 U.S.C. §103 that patentable subject matter must be unobvious at the time the invention was made to a person of ordinary skill in the art. *Santa Anita Manufacturing Corp. v. Lugash*, 369 F.2d 964, 967 (9th Cir. 1966).

Applying the principle of the *A & P* case to the facts herein, it is clear that the process of claim 9 of the Proler reissue patent fails to meet the test of invention. None of the three old functions of conventional equipment performs any new or different function in the combination than it performs out of it.

“Two and two have been added together and still they make only four.” *A & P* case, page 152.



## **2. The Compacting Step Is Old and Both the Compacting Step and the Result Thereof Are Obvious**

Appellant argues that the third step of claim 9 is novel and that the process of claim 9 produces a "new, useful, and unexpected result" in the form of a "revolutionary" product.

The Court should understand that appellees' fragmentized scrap product does not and is not charged to infringe the Proler reissue patent. Claim 9, the only claim in issue, is a process claim.

Appellees' fragmentized scrap, Lurmet, is in the public domain.\* Sam Proler did not invent fragmentized ferrous scrap. Fragmentized ferrous scrap was produced by the Los Angeles By-Products Company in the 1930s and 1940s and by the process of the prior art Gregg patent before it was subsequently compacted into a bale or stored in a bin. Furthermore, appellees' fragmentized scrap, Lurmet, has been produced by the appellees from September 1963 until May 1965 by a process which appellant concedes did not infringe the Proler reissue patent.

Appellant argues that the third step of the process of claim 9 is new because there is no evidence that individual pieces of malleable scrap have ever been compacted prior prior to the Proler process.

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\* Appellant can argue that its product, Prolerized scrap, is covered by claim 2 of the Proler reissue patent. Claim 2 covers a product made by the process of claim 1, that is to say, a product made by the steps of shredding, magnetically separating, roasting and compacting. Appellees are not charged with infringing claim 2 because they do not use the roasting step.



Even accepting, *arguendo*, appellant's position that the compacting step as set forth in claim 9 had not been previously performed, Proler's contribution to known processes for handling scrap was nothing more than to propose feeding scrap which had been previously fragmented and magnetically separated from nonferrous material through conventional rolls for the purpose of compacting the more malleable pieces to increase the density. That the rolls did indeed compact the malleable pieces of scrap and increase the bulk density is an obvious result and hardly one which is unexpected.\*

The conclusion that the compacting function of rolls is old and obvious is one that any layman would necessarily reach with knowledge that the step could be carried out by rolls which were conventional and used by scrap processors prior to the Proler process for compacting ferrous scrap cans. The compacting step is not one upon which appellant can rely to sustain the validity of claim 9 because it clearly cannot meet the statutory test of unobviousness. 35 U.S.C. §103 (A. 34a); *Graham v. John Deere*, 383 U. S. 1 (1966).

Appellees do not have to show that rolls have been used to compact fragments of magnetically separated ferrous scrap in order to support their contention that claim 9 is invalid as an aggregation of steps old in the art. That is to say, appellees do not have to establish a complete antic-

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\* A housewife who has used a wringer for squeezing water from washed clothes or a rolling pin for flattening dough would expect malleable ferrous fragments to be compacted in passing between rolls.

ipation of the process of claim 9 pursuant to 35 U.S.C. §102.

On the contrary, under the test of the *A & P* case and pursuant to 35 U.S.C. §103 (A. 34a) appellees need show only that the compacting of malleable material was old or obvious prior to the Proler process, not that it was necessarily used *seriatim* with the first two steps. In most of the cases where courts have held patents invalid on the basis of aggregation the patentee admittedly has been the first to combine all of the old elements or steps.

In *Hunter Douglas Corp. v. Lando Products*, 215 F.2d 372 (9th Cir. 1954), the patent in suit was for a process of trimming the edges of aluminum strips used in Venetian blinds by a series of shaving and rolling steps. Judge Lemmon, quoting from *Kwikset Locks v. Hillgren*, 210 F.2d 483 (9th Cir. 1954), held the patent in suit invalid (p. 375):

“ ‘In the circumstances where a patent is sought on a combination of devices or processes known to the prior art, the concept of invention remains elusive. It has been said that, in order for the combination to be considered a patentable invention it must “perform some new or different function—one that has unusual or surprising consequences.” \* \* \* There is no invention in a “mere *aggregation* of a number of old parts or elements”, nor in the *accumulation* of old devices which do not in some way exceed “the sum of its parts.” \* \* \* Moreover, a truly inventive combination must create what had not before existed or bring to light what lay hidden from vision in a way which can be distinguished from “simple mechanical skill.” A mere advance in efficiency and utility is not enough to con-

vert a non-inventive aggregation into a patentable combination'."

\* \* \*

"The rolling operation in the Hunter invention is to thin the strip. That is true of all rolling operations. The shaver is designed to trim the edges. Likewise, that is true of all shavers. Passing the strips through a number of rolls was known. No new or different function is disclosed." (Court's emphasis)

Appellees submit that on the basis of facts admitted by appellant the step of compacting malleable fragments of scrap between rolls is both old and obvious and the result produced thereby is precisely what anyone, whether skilled in the art or not, would expect.

#### **B. Appellees' Accused Process Does Not Infringe Claim 9 of the Proler Reissue Patent**

The commercial operation of appellees' plant which began in September 1963 and continued until April 1965 involved the shredding or fragmentizing of raw ferrous scrap in a hammermill followed by magnetic separation of the ferrous fragments from the nonferrous fragments to produce ferrous scrap fragments. Appellant concedes that this process practiced by the appellees prior to May 1965 did not infringe the Proler patent (R. 56).

Appellant contends that appellees' process using the same hammermill to further fragmentize recycled larger pieces as practiced subsequent to April 1965 infringed the process of claim 9 of the Proler reissue patent.

The alleged infringement of process claim 9 must be resolved on the basis of a comparison of the process steps thereof with the accused process and not on the basis of a comparison of the products. In *United States Rubber Co. v. General Tire & Rubber Co.*, 128 F.2d 104, 109 (6th Cir. 1942), the Court stated:

“Infringement of a process claim is not established merely by showing that the defendant has accomplished the same result, if he has followed substantially different procedure. The test is whether he has, in all substantial aspects, followed the method claimed.”

The same rule was stated in *Allen v. Standard Crankshaft & Hydraulic Company*, 210 F.Supp. 844, 850 (W.D. N.C. 1962), affirmed 323 F.2d 29 (4th Cir. 1963), as follows:

“Even if the defendants’ process produces the same result, that alone does not constitute infringement. In order to infringe, defendants’ process must operate in the same mode or manner.”

Claim 9 defines “a process of refining a raw ferrous bearing scrap material \* \* \* whereby a fluent mass is obtained” comprising three steps:

step 1—“shredding the raw material”;

step 2—“separating the more ferrous bearing shredded material”; and

step 3—“individually compacting and balling up the pieces of the more ferrous bearing shredded material to densify it while maintaining the individuality of the separate pieces”.

Appellees concede that they practice steps 1 and 2. Appellant concedes that steps 1 and 2 are old (R. 38, 39, 385).

As to step 3, appellant contends that in appellees' process the hammermill acts on the recycled fragments in the same way that the compacting rolls act in the Proler process, i.e., the hammermill acts on the recycled fragments by "individually compacting and balling up the pieces \* \* \* while maintaining the individuality of the separate pieces."

Appellant's contention on its face is without substance. Appellees do not use rolls or any equivalent thereof and thus do not employ step 3 in their process.

The language of claim 9 stating that the "compacting and balling up of the pieces" are carried out "while maintaining the individuality of the separate pieces" is functional and must be interpreted in accordance with the statutory provision of 35 U.S.C. §112 (A. 34a). The third paragraph of Section 112 provides:

"An element in a claim for a combination may be expressed as a means or a step for performing a specified function without the recital of structure, material, or acts in support thereof, and such claim shall be construed to cover the corresponding structure, material, or acts described in the specification and equivalents thereof."

See *Stearns v. Tinker & Rasor*, 252 F.2d 589, 597 (CA 9, 1957).

Since rolls are the only means described in the Proler reissue patent for carrying out the step of compacting and balling up while maintaining the individuality of the separate pieces, the third step of claim 9 must be interpreted as limited to the function of rolls or their equivalent.

The Court below recognized that on the basis of the undisputed facts in this case the fragmentizing operation of appellees' hammermill could not be found to be the equivalent of the third step of claim 9 of the Proler re-issue patent. They are not equivalent because (1) the words "compacting and balling up the pieces \* \* \* while maintaining the individuality of the separate pieces" are not descriptive of the function of a hammermill, and (2) the nonequivalence of the functions of rolls and hammermills has been recognized both in the Proler reissue patent and by the patentee, Sam Proler.

In the operation of a hammermill the ferrous scrap is fragmentized, and in the operation of rolls the ferrous scrap is compacted while maintaining the individuality of the separate pieces. Appellees rely on the undisputed fact that the step of fragmentizing scrap in a hammermill is old, on the undisputed fact that the recycled fragments are further fragmentized in appellees' hammermill, and on the irrefutable fact that the functions of hammermills and rolls are not equivalent. Appellant's argument that the hammermill also compacts, albeit without maintaining the individuality of the separate pieces, is immaterial to appellees' grounds for asserting noninfringement.

In the operation of a hammermill the ferrous scrap is fragmentized as it passes between a breaker plate and the rotating hammers. Some of the scrap fragments immediately pass through the openings in the grate. Other scrap fragments move around within the hammermill as the hammers rotate and are further fragmentized during internal recycling.



In his deposition Sam Proler described the shredding or fragmentizing operation of a hammermill on the material cycled once and on the material internally recycled therein. Proler testified that the ferrous scrap cycled once through a hammermill is shredded:

“The first time you put it through, you put in a whole car or a stove or a refrigerator and it shreds it up into small pieces.” (Proler dep., p. 25, line 24, p. 26, line 2)

He then describes the further shredding of the internally recycled scrap as follows:

“Actually, it shreds the material up. There are big pieces such as automobiles, stoves, refrigerators, ice boxes, and the hammers rip through and tear and shred the big pieces up and throw them around, and if they are small enough to go through the grate, they go through the grate opening size, and if they are bigger, they go around, and it shreds them and it tears them up again, and they come out shredded and in smaller pieces and fall through the openings.” (p. 43, lines 5-13)

In contrast, in the operation of rolls the ferrous scrap is compacted while maintaining the individuality of the separate pieces. Proler, in his deposition on page 72, lines 3 through 10, described the operation as follows:

“Q. Is there any subdividing of the material in the operation of these rolls? A. What do you mean subdividing?

“Q. I think you call it shredding. Is it broken up into smaller pieces? A. No, it is individually compacted, squeezed together, balled up and condensed into smaller pieces—*the pieces that go in are the pieces that come out.*” (Emphasis ours)



Not only is the language "compacting and balling up the pieces \* \* \* while maintaining the individuality of the separate pieces" inappropriate for describing the function of a hammermill, but the nonequivalence of the functions of the two pieces of equipment is recognized both in the patent and by Sam Proler, the patentee.

The Proler reissue patent clearly differentiates between the functions of the hammermill and the rolls. The hammermill is described as a "reducing means 11" and the operation thereof is described as follows:

"There the sheet metal is largely cut and shredded and the other material is cut and shredded and broken until the material is small enough to pass through the openings in the grate 12." (A. 5a, column 2, lines 11-15; R. 338)

The operation of the rolls 19, in contrast, is described in the Proler reissue patent, and particularly in claim 9, as that of individually compacting and balling up the pieces while maintaining the individuality of the separate pieces. In the Proler reissue patent the express functions of the hammermills and the rolls are to perform different and essential steps of the process. It is completely illogical to suggest that the different functions to accomplish different steps of the process are equivalent.

Sam Proler emphasized the different functions of a hammermill and rolls in the proceedings before the Patent Office when he was distinguishing his process from the earlier process used by the Los Angeles By-Products Company and described in the Gregg patent. Proler charac-

terized the function of the hammermill as "size reduction" and the function of the rolls as "rolling". Proler stated:

"Applicant will admit that size reduction and magnetic separation are old steps, e.g. as shown in the cited supplemental German reference, or in the Gregg patent (*supra*), but there is no suggestion of a combination of such steps with the steps of roasting the resultant material and then rolling the roasted scrap."  
(R. 385)

Although admitting that the process of fragmentizing ferrous scrap in a hammermill and then magnetically separating the ferrous fragments from the nonferrous material as practiced from 1963 through April 1965 does not infringe the Proler reissue patent, appellant claims that when the larger pieces of ferrous scrap are separated out from the product and recycled through the same hammermill, the function of the hammermill on the recycled pieces then becomes the equivalent of the compacting rolls.

The operation of the hammermill on all ferrous material passing through it, whether raw or recycled scrap, is necessarily the same. How can a continuously operating hammermill perform on scrap fragments a noninfringing and an infringing operation simultaneously? There is only one answer. It can't, and appellant's contention of infringement must fail. There is just no way for a hammermill with forty steel hammers each weighing 190 lbs. (a total weight of 7600 lbs.), revolving 700 times a minute (i.e., traveling at 150 m.p.h.) in a steel cage to be selective in its treatment of unrecycled material, internally recycled material and recycled material (Schroder dep. pp. 47, 53-70).

The tests performed by Prof. Hassialis (A. 10a; R. 345) establishing that the recycled material is shredded and subdivided in appellees' hammermill more than fivefold, that is to say, more than five times as many pieces are made for each piece recycled, are not challenged by appellant.

Sam Proler does not even dispute the fact that the recycled material is further fragmentized in the hammermill. When examined with regard to what happens with respect to the recycled fragments as compared with those fragments which he said "go around" within the hammermill, that is, internally recycled, he testified as follows:

"Q. I thought you had originally testified that some of the material originally put in and shredded continued around several cycles, around the rotor before it came out. A. That is what I say, it shreds and comes out in small pieces.

"Q. Even though a smaller piece? A. Even though a smaller piece, it is shredded, comes out in small various-sized pieces, smaller than the openings of the grate.

"Q. Why isn't the recycle material shredded too as it goes back in for recycling? A. It is, and that is the reason we are here.

"Q. Right. But I don't see how you distinguish between the two. A. Well, they recycle the material that is larger and heavier, although it came through the grate openings, to recycle back through the mill to reduce the size and increase the weight." (p. 203, line 13 through p. 204, line 7)

On the basis of the functional language of the third step of claim 9 and the uncontroverted facts and admissions made by appellant, it is clear that the appellees' accused process does not include the function performed on the

pieces of ferrous scrap by the rolls in the Proler process, or any equivalent of that function. The only possible conclusion is that the accused process does not infringe claim 9 of the Proler reissue patent.

Appellant's brief does not contradict or challenge the affidavit of Prof. Hassialis, but it states incorrectly that the Hassialis affidavit failed to advise the Court whether the pieces counted by him were merely small chips knocked off the larger fragments. The Hassialis affidavit states clearly that he counted only "plus  $\frac{1}{2}$  inch pieces" (A. 12a, 13a; R. 348, 349) and that the ratio of subdivision would have been much higher if pieces  $\frac{1}{2}$  inch or smaller had been counted.

Again, appellant does not contradict or challenge the statement in the Hassialis affidavit that recycling is a standard and recognized technique, known as "closed circuit operation", for operating a hammermill efficiently. Appellant relies on the Pennington affidavit which merely points out that the texts referred to by Prof. Hassialis deal with the recycling of rock and brittle material and not with shredded sheet steel. The Pennington affidavit, however, does not deny that the underlying theory for the increase in efficiency applies equally to a closed circuit operation of a hammermill regardless of whether it is fragmentizing rock or ferrous shredded scrap.

Appellant also overlooks the fact that the Proler reissue patent itself refers to the fragmentizing of rock as relevant to the art of size reduction at column 1, lines 31-34, in the statement:

“A further object of the invention is to produce a flowable material, analogous to graded hard coal or rock \* \* \*”

If appellant set out to achieve an analogous product it must follow that analogous prior art procedures should be recognized as relevant.

Appellant tries to bridge the gap between the functions of hammermills and rolling mills by irrelevant references to a “nuggetizer”, a hammermill specially designed by the Williams Patent Crusher & Pulverizer Company to “nuggetize” ferrous pieces. The “nuggetizer” is a special type of apparatus and the subject of the Williams patent No. 3,283,698 (appellant’s Ex. P). It is undisputed that appellees do not use and have never used a “nuggetizer” in the accused process (Williams dep. of June 21, 1967, p. 49, Burlingame dep. of June 1, 1966, pp. 12, 13 and 37). On the contrary, the uncontroverted Hassialis affidavit establishes that appellees’ hammermill fragmentizes the recycled pieces and operates in the manner of conventional hammermills.

In its brief appellant has made reference to an affidavit of Derlacki filed in the 1963-64 Texas case stating that appellees had no plans “to recycle any of its product or to compact the individual particles of the product in the foreseeable future” and argues that in a year’s time appellees “were obviously forced to add the third step”—recycling. There are no facts in dispute and no adverse inferences to be drawn from the facts. In 1963 Derlacki’s deposition was taken by Proler in the Texas case and he testified as follows:

“Q. —there are no plans for compacting the lighter material?” A. That is right.

“Q. What do you mean by that answer? A. I mean by that that we have no plans for doing anything but putting it into a shipping container right now.

“In the future, if we feel it desirable to get a greater effective density from this material, we do not plan to compact it, or to press it together. We have the option, if we so desire, of taking that material and putting it back through our whole process again, placing it on the main feed conveyor.

“Q. Reshredding it? A. Reshredding it, right.”  
(Derlacki dep., 1963, p. 73)

This is a clear statement that at the time, 1963, appellees did not intend to compact but that they had the option of putting material “back through the whole process again” by “placing it on the main feed conveyor” to reshred it. The Derlacki affidavit filed in 1964 merely reaffirmed this position.

The record is clear that there was an experimental period during 1963, 1964 and into 1965 in which the effect on density and overall wear of the grate bar openings, large and small, was investigated (A. 8a; R. 343; dep. R. Ablon pp. 72, 75-79, 81; dep. C. Ablon pp. 39-44). Burlingame called it a “learning” period (Burlingame dep. of June 1, 1966, p. 21). As a result of these experiments, appellees decided to use larger grate openings to minimize hammer-mill wear and overgrinding and to separate and recycle the larger fragments to maintain the density of the product (A. 9a; R. 343; Magness dep. of Oct. 29, 1965, pp. 49-50). This course of events is not inconsistent with Derlacki’s testimony and affidavit in the earlier Texas litigation.



Appellant implies that appellees were forced to recycle to obtain a product of high enough density. The Proler reissue patent states the product produced thereby "will have a density of at least 50 pounds per cubic foot and usually more in the vicinity of 60 pounds per cubic foot or even higher" (A. 5a, column 3, lines 27-29; R. 338). It is a matter of record and not disputed that appellees produced a product of up to 80 pounds per cubic foot prior to May 1965 without recycling (Derlacki dep. of Oct. 29, 1965, p. 100), and that its customer preferred a product of about 70 pounds per cubic foot (Burlingame dep. of Oct. 30, 1965, pp. 17, 68, 95). The argument, however, is irrelevant and diversionary because the controlling fact on noninfringement is that in appellees' process the larger pieces of fragmentized scrap which are recycled through the hammermill are further fragmentized and subdivided, as established by the Hassialis affidavit (A. 10a; R. 345). Appellant cannot and has not denied this fact by questioning appellees' motive for recycling.

There being no dispute as to the controlling evidentiary facts, the Court, comprehending the nature of the patented process and the alleged infringing process on the basis of the record and exhibits, properly determined that the accused process did not infringe claim 9 of the Proler reissue patent as a matter of law. *Kwikset Locks v. Hillgren*, 210 F.2d 483 (9th Cir. 1954), cert. denied, 347 U. S. 989 (1954) and cases cited, *infra*, pp. 53, 54.

Appellees have advanced the arguments that (1) shredding of the recycled fragments in a hammermill does not occur "while maintaining the individuality of the separate pieces" as is essential to claim 9 of the Proler reissue



patent; (2) shredding in a hammermill is not the equivalent of the compacting function of rolls; and (3) the use of a device known to the prior art (a hammermill) in a manner known to the prior art, i.e., to treat recycled fragments and to simultaneously treat the unrecycled fragments, cannot infringe claim 9 of the Proler reissue patent.

Summary judgment of noninfringement is justified on each of these grounds.

**C. Claim 9 of the Proler Reissue Patent Is Invalid Because the Invention Claimed Therein Is Not the Invention Disclosed in the Original Proler Patent**

**1. The Applicable Law**

The reissue of inoperative or invalid patents is authorized pursuant to 35 U.S.C. §251 (A. 34a) which reads in part:

“\* \* \* the Commissioner shall \* \* \* reissue the patent for the *invention disclosed in the original patent* \* \* \* No new matter shall be introduced into the application for reissue.” (Emphasis ours)

The requirement that the reissue must be for the same invention as the invention described in the original patent has long been recognized. In *Parker and Whipple Co. v. Yale Clock Co.*, 123 U.S. 87, 98 (1887) the Court stated:

“\* \* \* Letters-patent reissued for an invention substantially different from that embodied in the original patent are void and of no effect \* \* \*”

In *U.S. Chemicals Co. v. Carbide*,\* 315 U.S. 668 (1942), rehearing denied, 316 U.S. 708 (1942), the Supreme Court held a reissue patent invalid for failure to satisfy this requirement of the patent reissue statute on facts which bear a striking similarity to the facts of this case.

Both in the *U.S. Chemicals* case and in this case the original patent described and claimed as essential a process step which in the reissue was characterized as optional or permissive to justify broadening the patent.

In this case the patentee went even further in that during the prosecution of the original patent Proler characterized the roasting step of the process as "of major importance" (R. 446) and "to a large extent responsible for the tremendous commercial success" of the process (R. 396), and relied on the roasting step to distinguish the Proler process from the prior art (R. 379-401, 435-473).

In the *U.S. Chemicals Co.* case the Supreme Court held the reissue patent invalid for claiming an invention different from the one described in the original patent. Claim 9 of the Proler reissue patent was properly held invalid for the same reason.

The patent in the *U.S. Chemicals* case related to a process for producing ethylene oxide by subjecting ethylene to

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\* The *Parker and Whipple* and *U. S. Chemicals* cases were decided prior to the enactment of the Patent Act of 1952. The predecessor statute (35 U.S.C. §64) required that the patent be issued "for the same invention," while the new statute states that the patent is reissued "for the invention disclosed in the original patent." No change in the law was intended. P. J. Federico, *Commentary on the New Patent Act* 44 (1954). In both the *Parker and Whipple* and *U. S. Chemicals* cases the courts considered the entire disclosures of the original patents in determining whether the inventions thereof were the same as the inventions of the reissued patents.

the simultaneous action of the oxygen of air and of water in the presence of a catalyzer and, if need be, of hydrogen. All of the claims of the original patent included as an integral step of the process the voluntary addition of water. In the reissue patent the addition of water was stated to be optional and eliminated as an essential step of the process. At the trial expert testimony was introduced to establish that the introduction of water was immaterial and unnecessary, and the lower courts held the reissue patent in suit valid.

The Supreme Court held that the lower courts erred in relying on expert testimony introduced at the trial as to whether or not the addition of water was essential to the invention described in the original patent. The invention of the original patent is what is described and claimed in the original patent and not what the experts later conclude was the invention. The Court determined on the basis of an examination of the disclosure of the original patent that the introduction of water was described as essential in the process described in the original patent, and this was controlling over the experts' testimony that the introduction of water was not in fact essential.

The Court also took into consideration that the original patent described the introduction of water as an integral step of the process and not merely an optional or permissive step. The Court stated (page 673):

“Various options or alternatives are mentioned in the specifications, but nowhere in them, or in the claims, is the introduction of water treated as optional or permissive. The District Court made no finding directed

to this fact, but the court below definitely holds, and we agree, that, in the process defined in the original patent, the voluntary introduction of water into the reaction chamber is mandatory.”

The Court in the *U.S. Chemicals* case further stated (page 677) :

“On the face of the papers, the process described in the original patent included a step not designated as optional or desirable but described and claimed as an integral part of the whole operation.”

This is significant in the present case because certain steps were described in the original Proler patent as optional, such as trommeling and a second magnetic separation, but roasting was described as an integral step of the Proler process.

The Supreme Court concluded that the combination of steps of the process, excluding the introduction of water, in the reissue patent was for a different invention than was disclosed in the original patent where the use of water was described and claimed as an essential step. The Court held the patent invalid (page 678) :

“This court has uniformly held that the omission from a reissue patent of one of the steps or elements prescribed in the original, thus broadening the claims to cover a new and different combination, renders the reissue void, even though the result attained is the same as that brought about by following the process claimed in the original patent.”

See also, *Scovill Manufacturing Co. v. Goldblatt Brothers*, 362 F. 2d 777 (7th Cir. 1966) ; *Lockwood v. Langendorf*

*United Bakeries, Inc.*, 324 F. 2d 82 (9th Cir. 1963); *Sears Roebuck & Co. v. Minnesota Mining & Mfg. Co.*, 243 F. 2d 136, 144 (4th Cir. 1957), cert. denied, 355 U.S. 932 (1958); *Ballew v. Watson*, 290 F. 2d 353 (D.C. Cir. 1961); *Daniel v. O. & M. Mfg. Co.*, 105 F.Supp. 336 (S. D. Tex. 1952); *Kinnear-Weed Corp. v. Humble Oil & Refining Co.*, 150 F.Supp. 143, 161 (E.D. Tex. 1956), aff'd 259 F. 2d 398 (5th Cir. 1958), cert. denied, 361 U.S. 903 (1959).

## **2. Roasting Is an Essential Step of the Invention Disclosed and Intended to be Covered in the Original Proler Patent**

Comparison of the abandoned Proler application, the original Proler patent and the Proler reissue patent and their respective file histories brings the instant case squarely within the rationale of the *U. S. Chemicals* case.

The Court's conclusion that roasting was an essential step of the invention disclosed and intended to be covered in the original Proler patent was based on undisputed evidence that was both overwhelmingly and clearly documented:

1. The roasting step is described in the specification of the original Proler patent (and also the specifications of the abandoned Proler application and the Proler reissue patent) as an integral step in the process, and the temperature is specified as being within the range of 1300° F. to 1800° F. to burn off adhered nonferrous material such as paper, wood, grease, oil, paint, rubber and other combustibles, melting off tin and lead and other nonferrous coatings, and cracking off various porcelain and stonelike finishes (A. 5a, column 2, lines 35 through 49; R. 338).

2. In the original Proler patent of some six steps in the process two (trommeling and a second magnetic separation) are described as optional—this creates a presumption that the other four—shredding, first magnetic separation, roasting and compacting by rolls—are essential.

3. The abandoned application, the original Proler patent and the Proler reissue patent describe only a single preferred embodiment of the invention summarized in all three as follows:

“According to a preferred method embodying the invention an appropriate raw material is reduced to a proper size by milling it up until it is cut to a size that will pass a grate having openings somewhat less than a foot square, the resulting shredded material is magnetically separated, the separated more ferrous material is purified by counterflowing it through a rotary kiln heated to about 1300° to 1800° F.\* at the exhaust end to melt and burn off adhered non-ferrous material, and the resulting clean scrap is compacted while still hot by rolling extrusion.” (A. 5a, column 1, lines 39 through 47; R. 338; appellant’s Ex. Y)

4. In the preferred embodiment of the Proler process the roasted scrap is compacted between the rolls 19 while still hot (A. 5a, column 1, line 47 and column 2, line 60; R. 338).

5. All of the process claims of both the abandoned application and the application which later issued as the original Proler patent contained four essential steps, namely, shredding, separating, roasting and compacting (R. 368-369, 423-424).

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\* C. in the abandoned application.



6. All of the claims which issued in the original Proler patent contained the same essential four steps.

7. If there still can be any doubt, the doubt is resolved by the attorneys' arguments (see Court's FF 2.3, A. 21a-24a; R. 611-615) describing the roasting step as "of major importance", "to a large extent responsible for the tremendous commercial success" of the process, and a step which distinguished the process from the other prior art patents.

On the basis of the disclosure of the original Proler patent, the history of its prosecution and the attorneys' arguments in support of patentability, it is clear from the record that roasting was disclosed as and intended to be an essential step of the invention of the original Proler patent.

This Court need not resolve by expert testimony whether in fact roasting is essential or optional in appellant's process. In the *U. S. Chemicals* case the Court disregarded expert testimony that the same result would have been obtained whether or not water was introduced. The Court looked to the record to determine whether the invention intended to be covered in the original patent included the voluntary addition of water. Here it is clear that the invention intended to be covered in the original patent included the roasting step.

Appellant cannot avoid the effect of 35 U.S.C. §251 (A. 34a) and the *U. S. Chemicals* case by the explanation that during the prosecution of the application which issued as the original Proler patent and after the citation of the Brooke patent it changed its position on the importance of the roasting step. The Patent Office record shows that even after the Brooke patent was cited appellant failed to drop the roasting step from the claims. On the contrary, the



claims containing the roasting limitation which actually issued in the original Proler patent were submitted after the citation of the Brooke patent (R. 462-465). Furthermore, the statute, 35 U.S.C. §251, and the *U. S. Chemicals* case require that the determination of whether the reissue is for the same or a different invention be made on the basis of the disclosure of the original Proler patent. Viewing the original disclosure both in respect to the specification and the claims it is apparent that roasting was disclosed as one of four essential steps. The attorneys' arguments during the prosecution of the application only resolve any doubt on the question.

Appellant points out that the specification of the original Proler patent and the Proler reissue patent are the same and that the stated objects of the invention therein do not necessarily require roasting. The rationale of the *U. S. Chemicals* case does not require a change in the reissue specification or place undue emphasis on the objects. As stated above, it is the invention that is disclosed in and intended to be covered in the original patent that controls, and not the changes made in the reissue application. It would be illogical for appellant to suggest that it is in a better position because, after dropping roasting as essential in the claims, it neglected to revise the reissue specification to describe roasting as optional.

Appellant argues that claim 9 of the Proler reissue patent meets every test laid down in *Monogram Manufacturing Co. v. Glemby*, 136 F.2d 961 (2nd Cir. 1943). In the *Monogram* case the court held that a spring was an optional and not an essential element of the original specification because (pages 963 and 964) the original specification stated

that the spring (the element eliminated by the reissue) “may be provided for clamping the end of the lock of hair” to the curling member “if desired”, “but this is not necessary.”

Appellant argues that in the *Monogram* case the court gave weight to the fact that the patentee described at the beginning of the patent in the “objects of invention” the components of the patented apparatus and did not specify that the spring was essential. The “objects of invention” of the original Proler patent are not analogous because they do not describe the patent process but are concerned with the quality, costs and characteristics of the product. In the *Monogram* case it was apparent on the face of the original disclosure that the spring was optional and not essential, whereas it is just as apparent on the face of the original Proler patent that roasting was intended to be an important and integral step of the Proler process.

Appellant quotes *Application of Handel*, 312 F.2d 943 (CCPA 1963) as holding that it is improper to look to the claims of the original patent to see what applicant intended to cover. The *Handel* case holds only that it was improper to look *solely* to the claims to make this determination. Indeed, the *Handel* case supports the appellees’ position that the entire disclosure of the original patent, including the claims, should be considered in determining whether the reissue claims a different invention. The Court stated (at page 948):

“The decisions of this court, both before and after the effective date of the 1952 act, are also to the effect, as stated in *In re DeJarlais*, 233 F.2d 323, 43 CCPA

900, 904, that 'It is also well settled that the same invention means whatever invention was described in the original patent, and which appears to have been intended to be secured thereby.' "

When the entire disclosure of the original Proler patent is considered, as appellees have urged that it should be, it is clear that roasting was disclosed as an essential step in the process intended to be covered therein, and the history of the prosecution of the application for that patent only confirms this fact.

#### **D. Claim 9 of the Proler Reissue Patent Is Invalid on the Ground that the Defect of the Original Proler Patent Did Not Arise Through Error**

Another condition for the reissue of a patent under 35 U.S.C. §251 (A. 34a) is that the original patent must be deemed inoperative or invalid "through error without any deceptive intention".

A patentee must show that the defect in his original patent resulted from "error" to be entitled to correct that defect through reissue. In *Lockwood v. Langendorf United Bakeries, Inc.*, 324 F.2d 82 (9th Cir. 1963) the Court stated at page 94:

"The right to a reissue of a patent is exceptional and is given only to those who come clearly within the exception. It must affirmatively appear in the case of a reissue patent not only that the state of the art permitted a broader claim than in the original patent, but also that the failure to claim it was due to error or inadvertence \* \* \* When a patentee has once declared himself he is bound by the claims and drawings and

specifications set forth in this application unless he brings himself within the provisions of Sec. 251 by showing some error or inadvertence. Absent such a showing, the right to a reissue does not lie. Nor is there any presumption favoring the right to reissue."

It was not through "error" that all of the claims of the original Proler patent were limited to a process or a product made by a process which included the step of roasting the shredded scrap at a temperature sufficient to remove substantially all nonferrous material. The file histories of the abandoned Proler application and the original Proler patent show beyond dispute that the patentee relied on roasting as "of major importance" (R. 436), "to a large extent responsible for the tremendous commercial success" of the process (R. 396), and a step which distinguished the Proler process from the processes of the prior art patents (R. 379-401, 435-473). The limitation of the claims of the original Proler patent to include roasting was intentional, calculated and deliberate with full awareness of the consequences.

Proler knew precisely what roasting accomplished in his process, and he elected to emphasize the importance of roasting during the prosecution of the first and second applications which resulted in the original Proler patent. The claims of the original Proler patent as issued defined a process which included the roasting step. Proler's decision to broaden his patent by reissue was not to correct an error, but simply because he changed his mind about the importance of the roasting step. This is not a proper basis for reissue.

Appellant cites *National Nut Co. v. Sontag Chain Stores*, 107 F.2d 318 (9th Cir. 1939) as support for its contention that "error without any deceptive intention" means nothing more than lack of fraudulent intent. This construction fails to give any meaning to the word "error". The more reasonable interpretation of Section 251 is that of the more recent Ninth Circuit case of *Lockwood v. Langendorf United Bakeries, Inc.*, *supra*, in which the Court held that to comply with the reissue statute it must affirmatively appear that the failure to make the broader claim was due to error.

Where a patentee intentionally limits the claims of his original patent to stress what he believes to be a novel and distinctive feature and then changes his mind as to the importance of that feature there is no "error" within the meaning of the statute to justify reissuing the patent.

In *Daniel v. O. & M. Mfg. Co.*, 105 F.Supp. 336 (S.D. Tex. 1952), the Court held a broadening reissue patent invalid because the claims had been intentionally limited on the basis of facts known to the inventor at the time that he filed his original application for patent. The court states at page 343:

"Claims 2 through 8 of the Salzer reissue patent are *invalid* for the further reason that as a re-issue patent it was improperly issued because under the facts there is no *inadvertence*, *accident* or *mistake* which is a requisite for authorizing a re-issue patent under the statute. More specifically, there is no *inadvertence*, *accident* or *mistake* as required by the statute because that which is claimed in the re-issue patent was *known* to the inventor Salzer at the time he filed his original application for patent. He purposely

omitted disclosing in his original patent a machine *without* 'creasing elements' because he had built one, found it unsatisfactory, and had then built a machine with 'creasing elements' as *disclosed* in his patent. *Cridlebaugh v. Rudolph*, supra; *General Radio Co. v. Allen B. DuMont Laboratories, Inc.*, 3 Cir., 129 F.2d 608, 611; *Toupet-Taylor Engineering Co. v. Red Dog Mfg. & Supply Co.*, 3 Cir., 16 F.2d 454."

See also *Miller v. Brass Co.*, 104 U.S. 350, 355 (1881); *Ballew v. Watson*, 290 F.2d 353 (D.C. Cir. 1961); *Dill Mfg. Co. v. J. W. Speaker Corporation*, 83 F.Supp. 21 (E.D. Wis. 1949), *aff'd*, 179 F.2d 278 (7th Cir. 1950).

In the absence of any error upon which the reissue of the original Proler patent could have been based, the reissue of the patent was improper and reissue claim 9 is invalid.

### **E. Claim 9 of the Proler Reissue Patent Is Invalid Because the Record, Including the Oath, Fails to Show Any Error**

There is nothing in the entire file history of the Proler reissue patent (R. 484-517) which states the facts constituting the "error" relied on as the basis for the reissue. The only reference to the "error" is that portion of the oath filed in support of the application for the Proler reissue patent which states as follows:

"Deponent further deposes and says that the failure to include claims broad enough to properly protect the invention arose through error and without any deceptive intention on the part of Deponent, \* \* \*

\* \* \*



“The error in failing to include claims broadly defining the purifying step arose during the prosecution of the application for the patent, and was not discovered until after the patent had issued, in a conversation between applicant and his attorney on November 17, 1960” (R. 495-496).

The Commissioner of Patents erred in accepting the oath couched in the general terms of the statute. The oath should have set forth the facts to show that error was actually committed and how the error arose.

As was stated in *General Radio Co. v. Allen B. DuMont Laboratories*, 129 F.2d 608, 612 (3d Cir. 1942), cert. denied 317 U.S. 654 (1942):

“We are satisfied that an applicant who wishes to obtain the benefits of the reissue statute must make a specific showing of the circumstances from which the conclusion of inadvertence, accident or mistake may be drawn by the Commissioner and that he does not comply with the statute by a mere sworn averment couched in the statutory terms or by a showing that the patentee or his solicitors committed an error of judgment.”

See also, *Lockwood v. Langendorf United Bakeries, Inc.*, *supra*, p. 47.

The Commissioner of Patents was without authority to reissue the original Proler patent by reason of the defective oath filed in support thereof which failed to show any error or how the error arose, and therefore claim 9 of the Proler reissue patent is invalid.

Appellant excuses the absence of any affirmative statement in the record as to how the error arose on the grounds



that 1) the reissue statute does not require an oath, and 2) *Fehr v. Activated Sludge*, 84 F.2d 948 (7th Cir. 1936), holds that a deficient oath can be supplemented by additional evidence to show the error and how it arose.

Rule 175 of the Rules of the United States Patent Office in Patent Cases requires an oath accompanying a reissue application \* \* \* “(4) Particularly specifying the errors relied on and how they arose or occurred.” The oath, therefore, is the proper vehicle for showing the existence of error and how the error arose.

Regardless of whether or not the reissue statute requires an oath and whether or not the oath can be supplemented by additional evidence, it is clear that the record of the proceedings in the Patent Office must affirmatively show the error and how it arose. The record in the Proler reissue patent shows that the failure to include a claim without roasting was due to the intentional stress placed on the step in the original disclosure and during the prosecution of the application for the original Proler patent. The record clearly shows that there was no error, and it follows that it also fails to show how the error arose.

## **V. SUMMARY JUDGMENT WAS PROPERLY GRANTED**

The Court below recognized that summary judgment could be granted in favor of appellees on all five grounds without the need for expert testimony and without the necessity of resolving any disputed fact. The Court concluded on the basis of the undisputed facts and upon proper

construction of claim 9 of the Proler reissue patent, the prerogative of a court and not of a jury when the evidentiary facts are not in dispute, that there was no infringement of the claim by appellees, and that the claim is invalid.

In the absence of a genuine issue of material fact involved in the adjudication of issues which are dispositive of patent infringement cases, the Supreme Court and the courts in the Ninth Circuit have found summary judgment to be a proper basis for disposing of patent infringement and validity. *Milcor Steel Co. v. George A. Fuller Co.*, 316 U.S. 143 (1942); *Henderson v. A.C. Spark Plug Div. of General Motors Corp.*, 366 F.2d 389 (9th Cir. 1966); *Rankin v. King*, 272 F.2d 254 (9th Cir. 1959); *Englehard Industries v. Research Instrumental Corp.*, 324 F.2d 347 (9th Cir. 1963), cert. denied, 377 U.S. 923 (1964); *Indiana General Corp. v. Lockheed Aircraft Corp.*, 249 F. Supp. 809 (S.D. Calif. 1966); *Riley v. Broadway-Hale Stores, Inc.*, 114 F. Supp. 884 (S.D. Calif. 1953), aff'd, 217 F.2d 530 (9th Cir. 1954); *Dolgoff v. Kaynar Company*, 18 F.R.D. 424 (S.D. Calif. 1955).

In *Cee-Bee Chemical Co. v. Delco Chemical Co.*, 263 F.2d 150 (9th Cir. 1958), and other cases relied on by appellant, the existence of a genuine issue of material fact precluded the courts from granting summary judgment. In this case appellant has not shown that there is an issue with respect to any of the facts on which the Court below granted summary judgment. As was stated in the *Henderson* case, *supra*, at p. 393:

“The mere statement that ‘an issue exists’ does not prevent the granting of a summary judgment below.

To abide by such a rule would emasculate the statute permitting such judgments.”

The Court below in the absence of any disputed controlling facts properly and correctly ruled as a matter of law that the claim 9 of the Proler reissue patent was invalid and not infringed. In granting appellees’ motion for summary judgment the Court below heeded the admonition of this Court in the *Henderson* case, *supra*, at p. 394:

“It is the duty of the trial court to dismiss a patent suit when the necessary showing is made on a motion for a summary judgment.”

See also, *Barkeij v. Lockheed Aircraft Corp.*, 210 F.2d 1, 2 (9th Cir. 1954).

## VI. CONCLUSION

Appellant has not shown that the Court below resolved any controlling issue of fact or failed to consider any material fact in adjudging claim 9 of the Proler reissue patent invalid and not infringed by appellees. Appellees respectfully submit that the judgment was properly granted and should be affirmed.

Respectfully submitted,

MCCUTCHEN, BLACK, VERLEGER & SHEA  
MAX K. JAMISON and JOSEPH R. AUSTIN

BRUMBAUGH, FREE, GRAVES & DONOHUE  
EBEN M. GRAVES and FREDERICK C. CARVER

*Attorneys for Defendants-Appellees*

By \_\_\_\_\_

MAX K. JAMISON

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that in my opinion the foregoing brief is in full compliance with those rules.

This is to certify that three copies of this brief have been served on counsel for the appellant by mailing them to their addresses of record.

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MAX K. JAMISON















